Austria	Sch22	Indonesia	Rp3100	Portugal	Esc100
Bahrain	Din0.650	Israel	NS3.50	S.Arabia	Rls7.00
Belgium	BFr48	Italy	L1600	Singapore	S$4.10
Canada	C$1.00	Japan	Y600	Spain	Pta125
Cyprus	C£0.75	Jordan	Fils500	Sri Lanka	Rup30
Denmark	DKr9.00	Kuwait	Fils500	Sweden	SKr9.00
Egypt	E£2.25	Lebanon	$L125.00	Switz	SFr2.20
Finland	Fmk7.00	Lux	LFr48	Taiwan	NT$65
France	FFr6.50	Malaysia	Rlr4.25	Thailand	Bt50
Germany	DM2.20	Mexico	Pes300	Tunisia	Din0.800
Greece	Dr100	Morocco	Dh6.00	Turkey	L500
Hong Kong	HK$12	Neth	Fl3.00	UAE	Dh6.50
India	Rup15	Norway	Nkr10.00	USA	$1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,466 — Wednesday February 17 1988 — D 8523 A

Senegal elections a test of African democracy, Page 4

World News

Ford strike likely to end as deal is reached

Leaders of Ford's 32,500 manual workers agreed to recommend a two-year pay deal worth at least 14 per cent and to call off the national strike that has shut the company's 21 UK plants for the last nine days.

A deal was reached after nine-and-a-half hours of talks. The dispute has cost the company more than £140m ($238m) in lost production. Page 8

New Hampshire poll

New Hampshire voters went to the polls in the first of a string of US presidential primary elections. Vice-President George Bush running neck-and-neck with Senator Robert Dole for the Republican presidential nomination as polling started.

Temple bomb kills 7

Two bombs exploded in a crowded Hindu temple during a religious festival in the Sri Lankan capital Colombo killing at least seven people and injuring 13 others. Sri Lankan politician killed, Page 3

AIDS drug approved

The US Food and Drug Administration (FDA) approved use of an experimental drug, trimetrexate, to treat some AIDS patients suffering from a deadly form of pneumonia. Page 4

Brazil air strike ends

Brazilian commercial pilots ended a 72-hour national strike but threatened to resume it on March 9 if their demands for a 65 per cent pay rise were not met.

Algerian reshuffle

President Chadli Benjedid of Algeria has reshuffled his Cabinet. Page 4

Senegal poll tension

Tensions are building in the campaign leading to the Senegalese presidential elections, amid opposition party calls for revision of the electoral code. Page 4

Students protest

Nigerian military government closed two university campuses after hundreds of stone-throwing students broke through police barricades in protest at the arrest of nine student leaders.

Angola-S Africa clash

Angolan and South African troops clashed near a southern Angolan garrison town. At least four Afrikaner conscripts were killed. Page 3

UK-Ireland talks

British and Irish Ministers met in Belfast in an attempt to prevent a further deterioration in relations between the two countries. Page 8

Shamir peace warning

Israeli Prime Minister Yitzhak Shamir said that the US wanted to complete talks on a Middle East peace plan before President Reagan's term ended but a quick settlement would be difficult.

Kohl to visit US

Chancellor Helmut Kohl flies to the US today for talks with the Reagan Administration expected to reveal differences over the next steps in disarmament. Page 20

Cyprus confrontation

The second round presidential election contest in Cyprus began to crystallise into a confrontation between left and right. Page 2

Contra cash 'useless'

Nicaragua said its currency change had caught US-backed Contra rebels unaware, leaving them with billions of worthless old bank notes stranded outside the country. Page 4

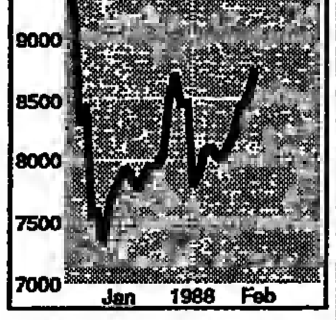
Business Summary

Compaq in challenge to IBM software

COMPAQ COMPUTER, leading US maker of IBM-compatible personal computers, will mount a new challenge to IBM's latest Personal System/2 personal computers with the announcement of new software and performance claims to negate the advantages of IBM's technology. Page 21

JOHNSON & JOHNSON, leading US maker of health care products, has agreed to pay $726m for most of the assets of Playtex, US personal products and women's underwear group taken private in a leveraged buy-out 14 months ago. Page 21

LONDON Metal Exchange nickel market's relentless upsurge continued as supply worries and low stock levels remained uppermost in traders' minds. The cash quotation's £167.50 ($96.30) rise to £8,717.50 a tonne extended the latest bull run to six trading days. Page 30



WALL STREET: The Dow Jones industrial average closed up 22.71 at 2005.97. Page 42

LONDON: Unenthusiastic UK markets digested news of a £6.3bn ($11bn) PSBR surplus and continued to drift. The FT-SE 100 dipped 4.6 to 1,734.6 in thin turnover. Page 38

TOKYO: Strong interest in demand-related and biotechnology stocks helped push share prices higher for the fourth consecutive day. The Nikkei average gained 138.19 to close at 24,345.66. Page 42

DOLLAR closed in New York at DM1.7100; Y130.40; FFr5.7780; SFr1.4040. It closed in London at DM1.7080 (DM1.7070); Y130.20 (Y130.05); FFr5.7725 (FFr5.7650); SFr1.4020 (SFr1.4035). Page 31

STERLING closed in New York at $1.7465. It closed in London at $1.7480 ($1.7460); DM2.9850 (DM2.9800); Y227.50 (Y227.0); FFr10.0900 (FFr10.0650); and SFr2.4500 (unchanged). Page 31

ELDERS IXL, Australian brewing, agri-business and finance group, said it expected good full-year results after reporting an 83 per cent surge in net earnings and a 61 per cent rise in revenues for the six months to December. Page 23

BEAR STEARNS, large Wall Street brokerage company, made net profits of $36.8m or 40 cents a share in the three months to January 29, which represented a decline of 38 per cent on the same quarter a year earlier. Page 21

TOYOTA MOTOR, Japan's largest car maker, reported its first increase in interim profits in two years. Page 23

BOND CORPORATION, brewing, media and property group controlled by Mr Alan Bond, Perth businessman, has reported net profits of A$109.2m ($77.7m) for the six months to December, more than double the A$52.6m for the same period in 1986. Page 23

TNT, Australian-based international transport group, reported a 35.5 per cent increase in equity-accounted earnings for the six months to December thanks to higher UK profits. Page 23

FRAMATOME, French nuclear power plant builder, has launched its long-expected counterbid for Télémécanique, industrial automation company. Page 22

Japanese company buys out Firestone tyre operations

BY RODERICK ORAM IN NEW YORK

FIRESTONE TIRE & Rubber, the second largest US tyre maker, is to put its worldwide tyre operations into a joint venture to be majority-owned by Bridgestone, its Japanese competitor in global tyres.

The announcement yesterday by the Akron, Ohio company, marked another huge step in the restructuring forced on the US tyre industry by foreign competition and corporate raiders. In recent years such famous names as Goodyear, Uniroyal and Goodrich have either drastically shaken up their operations or quit the tyre business completely.

Mr John Nevin, Firestone's chairman, said the "expanded technical and financial strength" of the joint venture would "materially" improve job security for the company's tyre workers. Akron is a company town for the US tyre industry with most of the leading rubber companies based there.

Firestone will raise nearly $1bn in cash from the transaction, which it intends to distribute to holders of its 32m common shares.

Its stock showed no initial response in New York to the news, however, because it had already risen $4⅝ to $40 earlier yesterday on rumours that Pirelli was planning to takeover Firestone's tire business. The Italian group had denied the rumours on Monday. However, the stock closed up $9⅜ to $45⅜ on the announcement.

Firestone also adopted yesterday a "poison pill" shareholders' rights plan to ward off hostile takeover threats.

The company will transfer to the new joint venture assets and liabilities with an equity value of $1.5bn. Bridgestone will take a 75 per cent stake in the venture, which will have initial financing of $750m of Bridgestone equity, $250m of Firestone and $500m of debt.

All Firestone's worldwide tyre-making operations, accounting for some 66 per cent of the group's total sales, will be taken over by the venture which will be operated as a "relatively autonomous" unit with its headquarters in Akron. It will have a separate board with members drawn from both partners.

For its fiscal year ended last October, Firestone reported net profits from continuing operations of $103m, or $2.81 a share, against $3m, or 8 cents a year earlier, on sales of $3.87bn against $3.6bn. The latest year's profits were after restructuring charges of $18m compared with a similar charge of $89m.

The group's non-tyre business includes car retail repair and maintenance centres and diversified rubber products.

Gordon Cramb writes: Bridgestone, which makes half the car tyres sold in Japan, is already ranked by some estimates as third largest manufacturer in the world. The company has a bus and truck tyre plant in the US, which it bought from Firestone.

It had been planning to extend this to production of car tyres there with an investment of up to Y10bn ($76.9m) over the next few years, aiming to produce 2m tyres a year by 1990.

Consolidated sales last year are expected to have reached some Y800bn, of which around four-fifths will have come from its main business – Bridgestone also produces chemicals and sporting goods. Net profits are forecast at Y22bn.

Apart from trying to dampen the effects of the strong yen on exports – which account for about a quarter of its turnover – Bridgestone has been undertaking a rapid technological advance. It has a licensing arrangement with Goodyear, one of Firestone's main domestic competitors.

Standard Chartered sells Union Bank for $750m

BY DAVID LASCELLES, BANKING EDITOR, IN LONDON

STANDARD Chartered Bank of the UK announced last night that it has agreed to sell Union Bank, its California subsidiary, for $750m in a move to strengthen its capital position.

The purchaser is First California Bank, a 77 per cent owned subsidiary of the Bank of Tokyo.

The deal, which had been expected for some months, is part of a major strategy of asset disposals launched by Standard last year to realise £300m ($528m) in fresh capital resources.

These are needed to replenish its reserves, which were depleted by £400m of provisions against doubtful Third World loans last August. These left Standard among the most weakly capitalised of the major UK banks.

The sale follows the disposal last month of Union's sister bank in Arizona for about $200m.

Standard said last night that the combined sales would increase its shareholders' funds by £77m while reducing its total assets by £6.3bn.

Together, these changes would achieve "a significant improvement" in the group's capital ratios, the measure by which a bank's strength is gauged.

Standard estimated that the ratio of equity to assets would improve by 70 basis points (or 0.7), the primary capital ratio (a new measure recently introduced by the Bank of England) by 80 points, and the risk asset ratio by 150 basis points.

Mr Michael McWilliam, the chief executive, declined to give any absolute figures because the bank is in the process of finalising its 1987 accounts. But he said that Standard's capital position was now "manageable".

No more sales were envisaged, though the bank would still use "good housekeeping" to strengthen the group further.

Mr Terry Smith, banking analyst at London securities and investment group Barclays de Zoete Wedd, estimated that Standard's equity to assets ratio would rise to 4 per cent as a result of the sales, which he described as "barely adequate". Other clearing banks are closer to 5 per cent.

Mr Smith commented that Standard would have to make further disposals and possibly a rights issue. Standard said that the sale price of $750m represents a multiple of 13.3 times Union's average post-tax profits for 1986 and 1987.

At the end of last year, Union had net assets of $590m. At the time of Lloyds Bank's abortive takeover bid for Standard Chartered in 1986, Goldman Sachs, Standard's US advisers, valued Union Bank at $800m-$900m.

Mr McWilliam said the sale had been made through an auction initiated last September. Some potential bidders had been shaken out by the October market crash, but there were "several foreign and domestic bidders" up to the end. He said the strong competition had enabled Standard to realise "quite a demanding price" for Union.

The sale marks the final retreat by the UK banking community from California, once considered the golden destination of the finance industry. Midland Bank, Lloyds Bank and Barclays Bank have all sold subsidiaries in that state in the last two years after failing to make headway.

Ironically, Union Bank was considered to be the most successful acquisition made by a UK bank in California.

Standard bought Union in 1979 to provide a new avenue for growth at a time when it was winding down its traditional reliance on Africa and other former colonial markets.

The sale will leave Standard with its main operations in the UK, Africa and the Far East.

Lex, Page 20

Xerox customers to assess pay

BY DAVID THOMAS IN LONDON

PAY RISES for the top European executives of Rank Xerox, the Anglo-American photocopier and office systems group, will depend from this year on what customers think of their performance.

The scheme, believed to be without precedent, will apply at first to Rank Xerox's top 130 European managers, but it is hoped to extend it to about 600-700 managers, possibly from next year.

Previously, the pay of the company's top managers has been set after a conventional assessment of their individual performance. Mr Roland Magnin, Rank Xerox's managing director, said he was replacing this system because "customer satisfaction is our number one priority."

Rank Xerox will carry out two surveys to determine pay rises due for its senior executives this November. The first, to be carried out by an independent agency, will be of customer satisfaction.

Up to 500 customers in each European country will be asked three questions: Are they satisfied with Rank Xerox's products and services? Would they buy more products from Rank Xerox? Would they recommend a Rank Xerox product to a business associate?

The second, internally administered, will be of customer loyalty. Each Rank Xerox national subsidiary will be studied to see how many customers it has retained in the past year.

The top half-dozen executives in the company's 15 European subsidiaries will then either not receive any pay rise at all or an award of up to 8 per cent, depending on the results in their particular country. The 40 most senior executives in the company's European headquarters based in England will receive increases equal to a weighted average of rises in the individual subsidiaries.

Executives in countries with exceptionally high inflation or general salary movements are also likely to receive a topping up element.

Rank Xerox started working on this idea about six months ago. Mr John Pearce, the company's international remuneration manager, said: "It was quite a long process. A team was set up to look at it."

Austrian Chancellor says he will remain in office

By Judy Dempsey in Vienna and Peter Riddell in London

TWO DAYS of tense and bitter discussions within Austria's Socialist-led coalition Government ended yesterday with a decision by Mr Franz Vranitzky, the Austrian Chancellor, not to resign – at least for the moment – over the row about the wartime activities of Mr Kurt Waldheim, the country's President.

His announcement that the Government would in the short term work with Mr Waldheim forestalled a major political crisis.

It coincided with a British Government decision to re-examine official files on possible links between the execution of British servicemen in Greece in 1944 and Mr Waldheim, then a lieutenant in the German army.

The move was announced by Mrs Margaret Thatcher to the House of Commons.

In Vienna, Mr Vranitzky had talks yesterday morning with Mr Alois Mock, the Foreign Minister and head of Mr Waldheim's People's Party, the junior partner in the coalition.

After a cabinet meeting, Mr Vrantizky repeated that he might yet quit if the situation became untenable in the wake of the report by an international commission of historians which found that Mr Waldheim had lied about his wartime activities.

Mr Waldheim has already said he would not stand down as President despite the commission's findings.

Mr Vranitzky was again highly critical of Mr Waldheim yesterday.

"We are faced with an enormous problem. We must meet the challenges facing us and try to persuade the President to stop using the tactics of isolation and of insularity."

His decision to remain as Chancellor would not "solve the issues," he said.

He could not guarantee that the left-right coalition would still be intact on March 11, the anniversary of the Anschluss, Germany's annexation of Austria.

Because it had found no evidence that he had been personally guilty or involved in war crimes, there were no grounds for his resignation.

The British inquiry will review the results of investigations carried out in 1986 by the Ministry of Defence into the fate of

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GORBACHEV TO VISIT UK

SOVIET leader Mikhail Gorbachev (right) yesterday confirmed to British Foreign Secretary Geoffrey Howe his "warm acceptance" of an invitation to visit Britain. Both men described their talks as marking a continued and striking improvement in Anglo-Soviet relations, write **Robert Mauthner and Charles Hodgson from Moscow.** The date of the visit remains to be fixed through diplomatic channels, but Mr Gorbachev made it clear at the start of 2½-hour talks with Sir Geoffrey in the Kremlin's gilded Catherine Hall that it was just a question of finding the right time. Sir Geoffrey, who also had more than five hours of talks and a private dinner with Soviet Foreign Minister Eduard Shevardnadze, said at a press conference that his meetings with the Soviet leaders had been "extremely worthwhile, detailed and businesslike, and conducted in a friendly and plain-speaking spirit". The British Minister, who last night flew to Kiev for the last day of his four-day visit, said that he was more than ever convinced of the need for "realism, vigilance and an open mind" in approaching East-West relations. The West should be receptive to changes in the Soviet Union and the opportunities they represent, while remaining watchful that current Soviet thinking was not just "old wine in new bottles."

Details of talks, page 2; Kohl to Washington, page 20.

World Bank agrees capital base boost

BY LIONEL BARBER IN WASHINGTON

THE BOARD of the World Bank will this week approve a plan for a $75bn boost to its capital base, the bank's president Mr Barber Conable said yesterday.

In Washington, Mr Michel Camdessus, managing director of the International Monetary Fund, said he was looking for a quota increase of more than 50 per cent from member countries. Otherwise, he warned, the IMF's capital base would shrink in real terms.

The two announcements came during addresses to the Bretton Woods committee, a blue-ribbon panel set up to promote international economic cooperation. Together, they indicated renewed vigour among the twin international lending agencies to expand efforts to solve the Third World debt crisis.

Mr Conable's statement yesterday reflects broad agreement among members, particularly the US, over their respective share of the bank's capital increase which would bring its total capital base to $171bn.

The American share would be just under one-fifth, consistent with its vote in the organisation, bot only 3 per cent is paid-in and the rest is "callable", that is 1 an obligation of governments to pay up if the bank runs into difficulties.

However, Mr Conable and the Reagan Administration have yet to persuade the US Congress to approve the US contribution, likely to be around $400m. The Administration will request the funds as part of its fiscal 1989 US budget package, and a Congressional vote could come in late summer.

Mr Conable's speech yesterday was largely the start of a public sales pitch to Congress to approve the capital increase - which the bank has been seeking for 2½ years. The way was cleared last September when Mr James Baker, US Treasury Secretary, announced US support.

Mr Conable pledged to strengthen programmes to attack poverty in the Third World, and to make sure that lending conditions oo debtor countries enhanced rather than retarded prospects for the poor.

Mr Camdessus said he wanted a "constructive and collaborative" relationship with the World Bank on tackling debt problems.

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The West German Chancellor is expected to put forward fears of a Soviet military threat, Page 20

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Mitterrand to head delegation to Nato summit

BY IAN DAVIDSON IN PARIS

PRESIDENT François Mitterrand of France will lead the French delegation to next month's Nato summit in Brussels, he announced yesterday on French television.

The summit has been called to discuss alliance arms control policy, in response to last December's US-Soviet agreement to remove all intermediate-range Nuclear Force (INF) missiles from Europe.

It will be the first time that a French president has attended a Nato meeting in the 22 years since General Charles de Gaulle took France out of Nato's integrated command structure in 1966.

President Mitterrand's decision, therefore, underlines the political importance attached by French authorities to the summit, scheduled for March 2 and 3.

Mr Mitterrand said yesterday that the summit would be "very important," and would be intended to "define the disarmament policy" of the alliance.

"I must be there," he said. "I must represent France and France must speak with a single voice."

The French President is expected to use the opportunity to join the rest of the alliance in expressing formal approval of the US-Soviet Euromissile agreement.

The European allies have felt varying degrees of misgiving over the agreement, at least partly out of fear that it could signal a weakening of America's nuclear commitment to the defence of Europe.

The chief purpose of the summit is to express support for the agreement and at the same time prepare a joint position in advance of the next Reagan-Gorbachev summit which is expected to centre on a projected 50 per cent cut in the long-range strategic nuclear weapons of the two superpowers.

President Mitterrand: going to Nato

President Mitterrand is also likely to insist on the long-standing French position, that there can be no question of submitting France's nuclear arms programmes to negotiation between the superpowers, at least until they have made much larger cuts in their nuclear forces than current proposals would indicate.

He is also expected to argue against Soviet suggestions that the superpowers should eliminate short-range as well as intermediate-range nuclear missiles from Europe.

In addition to the real importance he attaches to the arms control issues at stake, President Mitterrand's decision to attend the Nato summit may also be partly motivated by electoral considerations.

He has still not publicly declared whether he is standing for re-election in the forthcoming presidential elections; but many observers believe that he will, in which case his image will have been strengthened by his participation at such an important alliance gathering.

Probe widens into theft of Nazi files

BY LESLIE COLITT IN WEST BERLIN

WEST BERLIN justice officials investigating the theft and sale of thousands of Nazi personnel files from the US-run Berlin Document Centre have questioned Mr Gerd Heidemann, a reporter who was convicted of selling forged "Hitler diaries" to Stern Magazine.

The officials said they questioned Mr Heidemann and Mr Konrad Kurau, a convicted forger, to ascertain whether the two men knew how files on Nazi party members had made their way from the closely guarded document centre to West German dealers in Nazi memorabilia.

The US mission in West Berlin said yesterday the centre had suffered the loss of some 30,000 documents but that copies existed of all the stolen material as far as could be determined. The German Deputy Director of the Centre - run by an American appointee of the State Department - was previously suspended, although officials said he was not being held.

The Americans were to have handed over the centre to West Germany after microfilming its files but this has been only half completed, officials said.

German newspapers have doubted whether the Bonn Government wants jurisdiction over the documents as long as prominent ex-Nazis are still alive.

Access to the centre was always highly restricted by the US authorities in Berlin.

Gen John H Mitchell, the commandant of the US sector of Berlin, promised a "decisive investigation" of the document scandal at a meeting with Mr Heinz Galinski, the head of the city's Jewish community.

Mr Galinski said earlier he suspected the stolen files dealt with "highly incriminated persons."

Allied officials in West Berlin said it believed that stolen personnel files from the centre were used to blackmail prominent ex-Nazis living in West Germany and Austria. However, a West Berlin Justice Department spokesman said that its investigation was concentrated on the suspected to collectors of stolen documents.

"We are dealing with a Bermuda Triangle of liars and thieves." an official commented.

The centre contains nearly 30m Nazi documents including the original files of 10.7m Nazi party members. It also encompasses 60 per cent of the members in the elite Nazi Schutzstaffel (SS) and Sturmabteilung (SA) as well as the Nazi High Tribunal and party correspondence.

Iran, Turkey set for deal on Kurd rebels

BY JIM BODGENER IN ANKARA

TEHRAN may curb certain Kurdish guerrillas operating from its territory in exchange for restrictions on Iranian dissidents living in Turkey, a Turkish Foreign Affairs Ministry spokesman said yesterday in Ankara.

The tacit exchange will be discussed during a visit by a senior Iranian interior ministry official in a few days time, he added.

Although the Kurdish insurgents have not been named, they are understood to be the Kurdish Workers Party (PKK), blamed by Torkish security forces for most of about 240 deaths in 1987 from Kurdish guerrilla operstions in southeast Turkey.

In return, Ankara would be expected to clamp down on anti-Tehran protests by Iranian dissidents in Turkey. Two recent examples were detailed by the spokesman.

The first was an interview in the Istanbul daily, Gunes, with Mr Shapour Bhaktia, the former Iranian premier, in which he claimed there were many militants in Turkey ready to take up arms against Tehran.

The second was a similar claim by a prominent Iranian dissident in Istanbul.

W German CDU gets used to the Wall

By David Marsh in Bonn

AN OLD gnarled lady trundling a wheelbarrow of straw in the Bavarian village backwater of Moedlareuth, divided between East and West Germany by an ugly and incongruous wall across the main street, looks up from her labours to tell a visitor: "We have got used to the wall."

The same can now be said for West Germany's ruling Christian Democratic Union (CDU).

It has been revealed this week that a commission of top CDU figures, led by Mr Heiner Geissler, the general secretary, has drawn up a document on relations between East and West Germany which downgrades significantly the Federal Republic's aim of reunifying the nation.

Emotional

The party's new thoughts on a highly emotional subject have sent a tremor through Bonn.

The document has been criticised by right-wingers keen to stick to the letter of Bonn's statutory pledge, contained in the 1949 Basic Law (or provisional constitution), to make reunification its highest goal.

The opposition Social Democratic Party (SPD), which is moving towards a policy of recognising East Germany as a fully separate country in order to improve general relations between the two states, has welcomed the move, however. It says it brings the CDU's dogma over East Germany into line with basic realities.

Mr Geissler has worked on the commission along with figures such as Mrs Dorothee Wilms, the Minister for Inner-German Relations, and Mr Horst Teltschik, Chancellor Helmut Kohl's security adviser. The CDU general secretary is widely believed to be using the document to trawl for floating voters by showing that the party can move with the times.

The conservative daily newspaper, Frankfurter Allgemeine Zeitung, which can always be relied upon to stick up for the views of German nationalists, said in a critical editorial yesterday that the concept of a united Germany was slowly moving away from politicians' preoccupations. It was "deception" for the Government to try to argue that the document was simply a confirmation of existing policies.

Mr Oskar Lafontaine, SPD Prime Minister of the Saarland and a proponent of recognising East Germany, meanwhile welcomed what he termed "convergence" between CDU and SPD policies.

The document, intended to be laid before the next party congress in Wiesbaden in June, gives priority to improving all forms of contact between East and West Germany. This would include the vexed question of official ties between the East and West German parliaments - even though the former is not democratically elected.

Firmly rebutting any question of a go-it-alone path by West Germany in trying to unify the nation, the document says reunification could only be achieved as part of overall moves towards peace encompassing all Germany's neighbours in East and West.

Pressed by criticism from the right, Mr Kohl himself yesterday was forced to deny that the CDU was changing course on policies towards East Germany.

Pragmatic

Mr Kohl seldom loses a chance in public of proclaimiog the latent unity of East and West Germany (an area he called "the Fatherland"). When pressed to justify this goal, however, he tends towards bnorishness; when asked for details how it could be achieved, he is notoriously vague.

In fact, underlined by the highly pragmatic policies Bonn has adopted towards East Berlin during the last two years, achieving reunification has long ceased to be part of operative West German policy.

According to Prof Eberhard Schulz, a Bonn-based expert on East-West relations, part of the reason why the goal of reunification ofteo attracts indifference or suspicion from abroad is because Bonn has not spelt out what it wants.

"West Germany needs to say that it is not aiming for reunification in a national state, but would be satisfied with some other form of national unity such as a confederation," he says.

Beneath the surface, Cyprus seethes

BY ANDRIANA IERODIACONOU

GO TO any Sunday afternoon soccer match in Nicosia between the two leading Greek Cypriot teams, APOEL and Omonia, and the chanting in the stands will soon tell you that the occasion is about a lot more than football.

Omonia is the soccer club affiliated to the pro-Moscow communist party AKEL, from which it draws its fans, while APOEL is the team of the Greek Cypriot right, represented by the Democratic Rally (DISY).

In a country where soccer is about politics, politics is inevitably often very like soccer. Voters offer parties and their leaders the kind of unquestioning adoration which in other countries fans project towards sports heroes.

Superficially, it is impossible to judge party political allegiances among the large, affluent Greek Cypriot middle class, in which an average family owns a VCR, two cars and a house in town plus an apartment by the seaside.

This smooth surface is deceptive, however. Differing allegiances run deep. But which side of the political line a particular family falls on depends much more on its past history than on its present material position.

In many cases a family will vote for AKEL, despite a Mercedes or BMW in the garage and other signs of affluence around it, solely to keep faith with a rural, farming past in which the Communists figures as the leading political influence.

Similarly, another family might vote for DISY, not because of its position among the affluent, urban bourgeoisie, but in homage to the middle-aged and now paunchy paterfamilias, who was a useful member of the nationalist Eoka guerrilla movement of the 1950s, which fought against British colonial rule.

This polarisation often finds social expression in ludicrous ways, with not only left and right soccer teams but also left and right barber shops, left and right grocers and left and right coffee houses.

In one example of the latter, the Aegean, near the military Green Line which divides Nicosia into a Turkish-occupied and Greek sector, fervent nationalists gather to talk politics and read Self-Determination, a magazine published by the owners.

European Diary

Cyprus

These gut-level political decisions are likely to play a key part in next Sunday's voting to elect a Cypriot president. The choice is between the leader of DISY, Mr Glafkos Clerides, and Mr George Vassiliou, a wealthy businessman backed by the Communists.

The main task which the next president will have to face will be leading Cyprus to a settlement which resolves the situation created in 1974, when in the wake of a Greek military coup Turkey invaded and occupied the northern third of the island.

Both Mr Clerides and Mr Vassiliou have indicated that they are ready to be more flexible than the defeated president, Mr Spyros Kyprianou. Soon after assuming office in 1977, he took a hard-line stance involving full Turkish troop withdrawal and the dismantling of all barriers to movement, settlement and property ownership throughout Cyprus.

The key question is whether his successor to the presidency can persuade the Greek Cypriots to settle for less. The affluence of Greek Cypriot society, and the apparent lack of urgency for the recovery of what was lost in 1974, leads many observers to believe that the answer is positive.

However, again appearances may be misleading. Scratch Greek Cypriot society's urban European surface and you soon uncover its peasant roots, linking an otherwise comfortable burgher with a small village somewhere in the Turkish sector, whose loss still hurts and rankles. Though the material needs of the 200,000-odd persons displaced from their homes in 1974 have been efficiently met, they remain emotionally committed to the idea of return.

What percentage they represent, as against the realists who argue that Turkey is in Cyprus to stay, is difficult to gauge. If party strengths are anything to go by, then the nationalists add up to at least 36 per cent of the voting population — the sum of Mr Kyprianou's support and that of the equally hardline small socialist party.

For the moment, left and right-wing passions seethe just below the surface of Greek Cypriot society. There may come a day, however, if and when the next president comes forward with a compromise settlement plan for the island, when the passions come to the surface.

Cypriot rivals square off

By Andriana Ierodiaconou in Nicosia

THE SECOND round presidential election contest in Cyprus between Mr Glafkos Clerides and Mr George Vassiliou began to crystallise yesterday into an ideological confrontation between left and right.

Mr Clerides with 33.32 per cent of the vote and Mr Vassiliou with 30.11 per cent were the two front-runners in the first round of voting on February 14, which saw the defeat of the incumbent President, Mr Spyros Kyprianou, with 27.28 per cent.

A run-off vote will take place next Sunday.

An announcement issued by Mr Clerides' right-wing Democratic Rally (Disy) party cautioned voters about Mr Vassiliou.

Mr Vassiliou, a wealthy businessman who is running as a Communist-backed independent for President, should disclose any dependence on pro-Moscow ideologues, they said.

Mr Vassiliou's backers, the Moscow-line Communist party Akel, fought back.

They underscored the presence in Disy's ranks of far-right figures associated with the 1974 military coup organised by the Greek junta in Cyprus against the government of Archbishop Makarios.

The coup provided the opening for the invasion and occupation of more than one-third of Cyprus by Turkey.

Meanwhile, intense bargaining continued behind the scenes between political leaders, as Mr Clerides and Mr Vassiliou sought to outrival each other in wooing the second-round support of Mr Kyprianou's Democratic Party and the Socialist Edek, which scored just over 9 per cent in the first round.

HOWE DISCUSSIONS IN MOSCOW

UK-Soviet human rights group planned

BRITAIN AND the Soviet Union have reported a striking improvement in Anglo-Soviet ties after a visit to Moscow by Sir Geoffrey Howe. Robert Mauthner and Charles Hodgson look at the issues covered by the Foreign Secretary's talks.

● HUMAN RIGHTS: modest progress was made. Mr Eduard Shevardnadze, the Foreign Minister, accepted a proposal by Sir Geoffrey for setting up a joint UK-Soviet working group which would deal with human rights issues on a systematic and regular basis.

However, Sir Geoffrey did not react favourably to a reiteration by Mr Shevardnadze of the Soviet proposal to hold an international human rights conference in Moscow, on which, he said, Britain and many other Western countries still had substantial reservations.

Sir Geoffrey had breakfast with a group of religious and other human rights activists at which he was handed a list of 240 people described by Fr Gleb Yakunin, a former political detainee as "religious prisoners".

Though the list of families in Britain whose relatives have been denied permission to leave the Soviet Union has been whittled down to one from nearly 20 two years ago, Sir Geoffrey said that much still remained to be done. "The plain truth is that families should not have to lobby governments to be reunited".

● ARMS CONTROL: Sir Geoffrey firmly denied that Britain was in any way trying to circumvent the INF agreement for the abolition of medium-range nuclear missiles signed by the US and Soviet Union last December.

"Modernisation of nuclear weapons is not a euphemism for circumventing the treaty," he said. It was a necessary process for ensuring the continued effectiveness of the nuclear deterrent, which was as relevant for the Soviet Union as it was for the Nato allies.

British officials consider that the Soviet leaders have now virtually recognised the right of Britain and France to maintain an independent nuclear deterrent, even after the proposed reduction of 50 per cent in their strategic nuclear arsenals by the US and the Soviet Union. "The nuclear dog did not bark throughout the talks", a senior British official said.

● TRADE: Sir Geoffrey also hailed what he described as "useful" meetings with Mr Konstantin Kamentsev and Mr Nikolai Tolstykh, senior Soviet trade officials, during which both sides agreed to stick by the target date of 1990 for increasing Anglo-Soviet trade by 40 per cent.

Last year the trade gap between the two countries widened. Britain imported £879m worth of Soviet goods and exported £492m worth to the Soviet Union compared with £698m and £539m respectively in 1986.

British officials attributed the deterioration in the trade figures last year to a combination of the increase in the price of oil - Britain's main import from the Soviet Union - and a strong Soviet drive to sell its Lada cars. British exports had been hampered by more rigorous control by Moscow of its dwindling hard currency reserves and to "the confusion" caused by implementation of Mr Mikhail Gorbachev's economic reform programme, which has seen a radical shake-up of Soviet foreign trade organisations.

Austria political climate cools

BY JUDY DEMPSEY IN VIENNA

THE POLITICAL temperature in Austria cooled yesterday following remarks made at a news conference by Mr Franz Vranitzky, the Chancellor. However, internal differences remain within Austria's political parties over the future of President Kurt Waldheim.

Mr Vranitzky was critical of Mr Waldheim but made clear he would not immediately resign as Chancellor in protest against the latter's refusal to step down as head of state.

The conservative People's Party (OEVP), is divided into two distinct camps. Mr Alois Mock, the Vice-Chancellor and party leader, continues to represent the hardline attitude. "He will not distance himself from Mr Waldheim," an OEVP official said.

The official added that this was putting considerable strain on the party, especially among its liberal wing which consists largely of economists and businessmen who recognise the long-term damage the Waldheim affair is having on the party. So far, this wing has had little opportunity to air its real feelings about the issue.

Mr Vranitzky's Socialist party (SPOE) is for the moment defending the Chancellor's position. As some party officials put it, there is little point in Mr Vranitzky resigning if it means Mr Waldheim will stay in office.

Nor do the Socialists particularly relish the idea of doing the OEVP what may turn out to be a favour by pulling out of the coalition abruptly and plunging the country into a general election dominated by the Waldheim issue.

Mr Mock is anxious to go to the country in the hope of obtaining an absolute majority, although some members of his party think he is being too optimistic in expecting this.

Nevertheless, some SPOE officials continue to feel, at least privately, that Mr Vranitzky should take a stronger line. "How long can we work with a president who weakens our institutions and casts a black shadow over our country?," one SPOE official asked.

Meanwhile, Mr Waldheim faces the awkward task of making an address on March 11 to commemorate the 50th anniversary of *Anschluss*, the incorporation of Austria into Germany. The Government intended the commemorations as a national attempt to come to terms with the events of 1938.

Over the past few months, at the Chancellor's initiative, several seminars and lectures have been held to examine why there was so little resistance to *Anschluss*, an issue which is never discussed, for example, in Austria's schools.

But in the light of curreot events, it seems likely that the event will merely serve to demonstrate the deep polarisation which has taken place in Austria over the past few months.

"If the head of the state cannot confront the past, how can he stand up on March 11 and beat his breast and sound sincere?" an Austrian journalist asked.

Falling exports hobble Dutch output growth

By Laura Raun in Amsterdam

INDUSTRIAL PRODUCTION grew only slightly in the Netherlands last year under the pressure of falling exports and modest rises in consumption and investment.

The index edged up only 0.9 per cent to 107 (1980 = 100) from 106 the year before, according to seasonally adjusted figures released by the Central Bureau of Statistics.

The textile, clothing, leather, machine metal and food industries were among the weaker sectors, while basic metals, paper and graphics and chemicals expanded more robustly. Output in the energy sector and power utilities rose by 1 per cent.

Much of the lacklustre performance was blamed on Dutch exports, which dropped 7 per cent during the first 11 months of 1987 under the pressure of the strong guilder. Both personal consumption and business investment rose about 2.5 per cent last year.

Sales of four-wheel-drive vehicles soar in Europe

BY JOHN GRIFFITHS

TOTAL West European sales of light four-wheel-drive vehicles, including cars, reached 400,000 units for the first time last year, according to market analysts Automotive Industry Data.

Preliminary AID statistics for 15 countries show that the light 4wd market grew by 17.8 per cent, nesrly three times the rate of the car market overall. While the fastest rate of growth was enjoyed by cars, at just under 20 per cent, purpose-built leisure and otility vehicles surged through the 200,000 level for the first time to account for 58 per cent of the total.

In its latest newsletter, AID stresses that because of the complexities of the 4wd market and the differing ways in which some countries record their sales, its statistics are partly estimated. Nevertheless, the 1987 performance of the 4wd sector in Europe has surprised even the most optimistic of forecasters.

The biggest surprise, according to AID, came in Italy, where sales jumped by 50 per cent. Sales of more than 100,000 in a single market, West Germany, were achieved for the first time.

"Even more startling is the observed acceptability of 4wd in sunny Spain, where sales are estimated to have reached some 21,500 units, a rise of 19.8 per cent."

The upsurge "could literally lead to a general rethink in the European auto industry," it suggests, "for the market seems set for an unparalleled 4wd acceptance, which has already reached levels of penetration previously believed as unthinkable in the scenario of most European carmakers".

4WD PASSENGER CAR SALES IN WESTERN EUROPE ('000s*)

	1987	1986	% change
W.Germany	106.7	95	12.3
Italy	55.9	37.1	50.7
Switzerland	48.2	37.8	27.5
UK	48.0	42.7	12.4
France	35.1	27.8	27.2
Spain	21.5	18.0	19.4
Austria	20.0	17.1	17.0
Norway	12.4	18.7	-33.7
Sweden	11.7	10.3	13.8
Netherlands	9.4	8.5	10.6
Others	31.3	26.8	18.8
Total	400.2	339.6	17.8

*Partly estimated. Source: AID

Japanese vehicles dominated both the car and leisure/utility sectors, according to AID's figures. The car sector was led by the Subaru Leone and Justy models, but a new Toyota Corolla-based Tercel model is expected soon which is likely to become the single best-selling 4wd in Europe.

But, while Fiat group and Audi/Volkswagen continue to make progress in the sectors, too much of the European industry is still adopting a perceived "safe" stance of wait-and-see, suggests AID, and not only over 4wd vehicles.

The European industry used to accuse the Japanese of copying. "Now the picture seems generally reversed. It is the Japanese making most of the running in costly innovation....with European carmakers only too ready to jump on the bandwagon once the element of high risk has been eliminated."

Spanish unionists sink differences to confront Gonzalez

BY TOM BURNS IN MADRID

A BREAKTHROUGH agreement between Spain's two main labour organisations has raised the spectre of industrial disputes this spring and widened the rift between the Socialist Government and its "fraternal" union, the Union General de Trabajadores (UGT).

Mr Nicolas Redondo, a 60-year-old veteran trade unionist and leader of the UGT, formally ended a deep-rooted rivalry with the Communist-led union, Comisiones Obreras, in a long meeting on Monday which resulted in his adopting a shared platform of labour demands with Mr Antonio Gutierrez, head of the Comisiones.

The two men agreed on an 11-point programme which amounts to a broadside attack on the Government's policy of wage moderation and labour flexibility. Key features of the platform are demands for a 6 per cent wage rise, a 38-hour working week, increased protection for short-term contracts, and an overhaul of the Employment Institute, the national employment agency, which would include substantially increased allocations for the jobless.

Government officials said yesterday they expected that an immediate outcome of the agreement would be disputes in two public sector companies, the Iberia national airline and the tobacco company Tabacalera. Both are due to review their collective agreements in the coming weeks and the unions will be seeking to break a 4 per cent pay ceiling for public sector employees which is contained in the 1988 budget.

The agreement's longer term implication is an enduring divorce between the Socialist Government and the UGT, and the cementing of a united labour front – a constant strategic objective of Comisiones Obreras.

Rivalry between the two unions had hitherto been best expressed by their inability to hold joint Labour Day parades on May 1 since as far back as 1981. Over the past six years of Socialist government in Spain, the UGT has largely endorsed the economic pragmatism of Prime Minister Felipe Gonzalez and characterised itself as the moderate labour organisation willing to negotiate with, rather than confront, employers.

Mr Redondo's estrangement from Mr Gonzalez, whom he accuses of betraying socialism, was sharply illustrated last October when he resigned his Socialist seat in Parliament. The gulf, with the Premier and the party, widened last month when Mr Gonzalez' policies were overwhelmingly endorsed by the party's congress.

By drawing up a joint platform with Comisiones Obreras, Mr Redondo has taken a decisive step towards severing a relationship between the UGT and the Socialist party which has existed since their joint foundation more than century ago by Mr Pablo Iglesias, the grandfather of Spanish socialism.

The development is likely to have an electoral impact on the Socialist party which has benefited considerably from the facade of a "united Socialist family".

The chief beneficiary of the agreement is Mr Gutierrez, the 36-year-old rising star of Spanish trade unionism who took over control of Comisiones Obreras last November from the legendary anti-Francoist union leader, Mr Marcelino Camacho.

A senior Communist party member like his predecessor, Mr Gutierrez has been able to accomplish what Mr Camacho, in part because of his personal rivalry with Mr Redondo, was never able to achieve: a united strategy with the UGT.

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Bank of Brunei chairman jailed in $600m fraud

A BRUNEI High Court sentenced the former chairman of the National Bank of Brunei to 52 months in jail yesterday for fraud and conspiracy, **Reuter reports from Bandar Seri Begawan.**

Ending the tiny, oil-rich nation's biggest bank fraud trial, Mr Justice Barry Mortimer said Mr Khoo Ban Hock's sentence would run from his arrest in November 1986.

Two other defendants, General Manager Mr Azlan Robert Teoh and British auditor Mr Andrew Peattie received jail terms of 20 months and 27 months, respectively.

"Dishonesty is dishonesty in any context," said Mr Mortimer, who accepted that the main conspirator had been the former chairman's reclusive, millionaire father, Tan Sri Khoo Teck Puat.

"I understand that coming from a Chinese family and being the eldest son, the position was thrust upon you ... but you were also trusted with the responsibility of managing the bank," Mr Mortimer said of Mr Khoo.

Brunei's authorities closed the bank in November 1986, alleging that 90 per cent of more than Br$1.3bn ($600m) had been extended to Khoo-related companies.

The three men faced a total of 14 charges in connection with the collapse of the bank.

Mr Mortimer ruled that although Mr Teoh did not decide bank policy, he played an important role in the conspiracy.

He said Mr Peattie's sentence had been influenced by the fact that he had diabetes and the difficulty of serving a jail sentence in the South-East Asian nation's hot, humid climate.

The three men reacted without emotion when the judgment was passed and declined to speak to reporters.

Defence lawyers were pleased with the sentences, saying that after remission the men may only have to serve jail terms of one year, six months and three months, respectively.

Brunei government officials said Tan Sri Khoo Teck Puat was wanted in the sultanate to face five charges of conspiracy to defraud the national bank and was being sought by police.

He is believed to be in Bangkok, the officials added.

New US command ship possible for Gulf fleet

A POSSIBLE replacement for the command ship of US naval forces in the Gulf entered the waterway yesterday accompanied by a frigate, **Reuter reports from Dubai.**

The vessels were identified 20 miles north of Dubai as the auxiliary supply ship, Coronado, and the missile frigate, Samuel B. Roberts.

The Coronado, originally an amphibious assault craft, was refitted as a command ship in 1980 while the La Salle, the current US flagship in the Gulf, was being refurbished.

US sources have hinted that the La Salle, now based off Bahrain under the command of Rear Admiral Harold Bernsen, may be replaced.

The Samuel B. Roberts is a similar Perry-class ship to US frigates now protecting US-flag Kuwaiti tankers from Iranian attacks stemming from the Iran-Iraq war.

The Reuben James frigate yesterday began to escort a new convoy of two Kuwaiti tankers south from the northern Gulf emirate to the Strait of Hormuz at the entrance to the Gulf, shipping sources said.

They named the tankers as the 297,739-tonne supertanker Townsend and the 46,723-tonne liquid gas carrier Gas Princess.

The US announced in January that it would reduce its Gulf fleet by up to four warships to cut costs, leaving 25 vessels including an aircraft carrier in the region.

The Defence Department in Washington said yesterday that the battleship Iowa, which carries long-range cruise missiles and a crew of 1,500, was now sailing from the Gulf for home in Norfolk, Virginia, with two escort warships.

It also said the carrier Okinawa, which has mine-sweeping helicopters, was due to leave for San Diego, California, before the end of the month.

Left-wing Sri Lankan leader murdered

By Mervyn de Silva in Colombo

A LEFT-WING politician, Mr Vijaye Kumaranatunge, 42-year-old leader of the left-wing Peoples Party, was gunned down by two men on a motorcycle as he stepped out of his home in suburban Colombo at noon yesterday.

The police were certain that the assassins belonged to the outlawed JVP, an extremist Sinhalese-Buddhist party, responsible for the equally daring assassination in late December of Mr Harsha Abeywardene, chairman of President Jayawardene's UNP.

Mr Kumaranatunge, the film star son-in-law of Mrs Sirima Bandaranaike, the former Prime Minister, died instantly and a young party supporter was critically injured.

A prospective presidential candidate, Mr Kumaranatunge, was the young hopeful of a newly united non-communal left movement struggling to survive in a political climate charged with ethnic tensions.

Last week, the socialists LSSP, the island's oldest marxist party, the pro-Soviet Communists, a small Trotskyist party and Mr Kumaranatunge's Peoples Party launched a "united socialist alliance". Unlike Mrs Bandaranaike's SLFP, the main opposition party, the new alliance supports the Government's peace accord with India and semi-autonomy for the minority Tamils, while strongly critical of President Jayawardene's economic policies and authoritarian outlook.

The alliance which had announced its inaugural rally in Colombo next week took another bold step. It invited two Tamil militant marxist-oriented groups to join it. In recent weeks, the targets of hit squads have been activists of the Peoples Party and the Communist Party rather than the ruling UNP. A few hours before state radio announced the Kumaranatunge killing, it broadcast a statement by the left alliance condemning JVP's murderous attacks on "leftists, progressives and student leaders" and its "fascistic" politics.

• Six Tamils at prayer in a Hindu temple in Colombo died in a bomb blast last night.

S African conscripts die in Angola

BY ANTHONY ROBINSON IN JOHANNESBURG

THE South African Defence Force yesterday announced that four white conscript soldiers had been killed east of the besieged Angolan town of Cuito Cuanavale over the weekend when their armoured vehicle was hit by Angolan artillery. They were all 19-year-old Afrikaners.

Last year at least 30 whites and an undisclosed number of black Namibian and ex-Angolan soldiers from South African-officered Namibian ethnic battalions died in action against Southwest Africa Peoples Organisation guerrillas and Angolan Government Fapla forces.

The latest confirmation of continuing South African military involvement in southern Angola in support of the rebel Unita movement led by Dr Jonas Savimbi, follows Angolan government claims thet between 6,000 and 7,000 South African reinforcements have recently entered the country. Defence force spokesman routinely rejected the Angolan claims as "propaganda" designed to deflect attention from a series of humiliating defeats inflicted on Angola's Cuban-backed and Soviet equipped forces.

Yesterday's statement said: "Since the weekend Unita has achieved resounding successes and Fapla is now retreating in disarray and trying to organise a desperate last stand".

Last year South Africa announced its intention to withdraw its forces from southern Angola where they helped Unita successfully to ward off a major Fapla offensive aimed at the Unita forward base of Mavinga, 250km south east of Cuito Cuanavale.

Gen Jannie Geldenhuys, the Defence Force commander, admitted yesterday, however, that withdrawal "is slower than anticipated".

He added that the decision to continue support for Unita was taken to consolidate the "operational advantages" achieved at the end of last year and also involved what he called "limited SADF offensive action". Most of the ground fighting is done by Unita troops while the SADF offers logistical and air support and lays down artillery barrages from its 35km range G-5 and mobile G-6 cannon.

The longer term political objective of South African involvement in the 12-year civil war is to force President Eduardo dos Santos to begin power-sharing negotiations with Dr Savimbi and secure the withdrawal of the 40,000 Cuban forces and Soviet advisers from the region.

The latest confirmation of South Africa's continuing involvement in the Angolan civil war comes against the background of a bitter wrangle with Zimbabwe and last week's thwarted coup in the Bophuthatswana homeland. Mr Pik Botha, the Foreign Minister, has publically warned Zimbabwe that it should take seriously South African requests for Zimbabwean assistance in tracking down alleged African National Congress guerrillas operating from bases in Zimbabwe. This follows a grenade and rocket attack against a farmhouse near the Limpopo River border over the weekend.

Harare for its part has accused Pretoria of being behind an alleged South African spy ring in the Bulawayo area responsible for sabotage against Zimbabwean army installations and ANC facilities.

Health service pressures erode medical apartheid

Anthony Robinson on South Africa's crowded hospitals

WHEN construction of Cape Town'e Tygerberg hospital started 26 years ago, it was a monument to the upartheid principle of "separate hut equal".

The austere brick complex in the far suburbs was designed with identical facilities for whites on one side of the shared central service and medical block, and coloureds and other non-whites ou the other.

Two decades later the principle of racially segregated wards still applies, and the senior staff and the matrons ure white. But a shortage of white nurses and population shifts, including development of u new shanty town for over 350,000 blacks at nearby Khayelithsha, means that uow the unrsing and medical staff are totally integrated and wards in the former whites-only sectiou are available to other races.

In its way, Tygerberg is a classic example of how underlying social and demographic developments have undermined the original assumptions of apartheid and led to limited evolutionary integration.

A similar process can be observed in other major "white" hospituls such as Groote Schuur, home of the first heart transplaut, or Johannesburg Central as the black urban population continues rapidly to increase and more whites opt for private health care.

Now privatisation is on the government agenda and hospital administrators worry about how to compete for staff and facilities. With so many claims on state funds there is little chance that Pretoria will increase public bealth's 5.6 per cent share of gross domestic product.

Greater overcrowding and longer queues for operations, a familiar phenomenou in Britain's troobled Health Service, seem inevitable.

Doctors in Soweto's Baragwanath hospital, the biggest black hospital in Africa, receutly protested egainst over-crowding and poor facilities only to be told that funds were simply not available to upgrade to first world standards.

To critics of the gap between health standards for white and black, South Africa's Dr Willie Van Niekerk, the Minister of Health and Population Development, points out that Britain and other first world countries enjoy per capita incomes up to five times higher than South Africa's average of around $2,000. Moreover, South Africa has a large third-world population many of whom pay few taxes.

The country also faces two new scourges - AIDS, which is beginning to sweep throngh African countries to the north, and a new resistant strain of malaria which is now spreading after more than a decade of civil war in Angola and Mozambique, and the decay of some preventive and prophyiactic measures.

Last year several white soldiers died from malaria contracted while fighting in Angola. But the main source of coutagion lies in the thousands of refugees from the civil war iu Mozambique. One in three have been found to carry the malaria parasites transmitted by a new aggressive and fecund strain of mosquito.

Two-thirds of the 98 AIDS patieuts under treatment in South Africa last year were white homosexuals. But what worries the health anthorities most is the prospect of heterosexually-spread AIDS transmitted by venereal disease sufferers, especially prostitutes. Now all black immigrant workers are being AIDS-screened before being given contracts and over 1,000 migrant workers from Malawi, Zimbabwe, Zambia and Uganda who have been found to be AIDS carriers or sufferers ure in the process of being deported.

Pakistan warns Moscow over Afghan peace

By Mohammad Aftab in Islamabad

THE Pakistan Government warned the Soviet Union yesterday that "without a new government in Kabul, etrife will not cease" and that the present moves to sign a peace agreement to end the eight-year war in Afghanistan would be aborted.

The Foreign Ministry said that withont peace in Afghanistan, the 3m refugees in Pakistan would not return home.

The ministry insisted that the question of signing peace agreements in Geneva by mid-March must be linked to establishing a new government in Kabul.

The Mujahideen, whom Pakistan, the US, China, and Western nations snpport, demand that they must have a dominant role in the Kabul government. But they have signified they would agree to the inclusion of some important non-communists from the present Moscow-backed regime in Kabul.

They would not agree, bowever, to demands by President Najibullah, the Communist leader of the present puppet regime in Kabul, for a leading role in the new government.

Australian current account deficit cut

By Chris Sherwell in Sydney

A RECORD visible trade surplus in January helped Australia to produce its lowest monthly current account deficit since April 1984, according to preliminary figures released yesterday.

The deficit of A$428m (£175m) was weil ahead of market expectations and the fifth monthly fall in a row. It puts the economy firmly on course for its budgeted target of A$11.5bn, or 4 per cent of gross domestic product, for the financial year ending in June.

On tbe Sydney foreign exchange markets the Australian dollar's trade weighted index firmed sharply from 52.8 to 53.1 (May 1970=100), its highest since the end of October. The currency also strengthened against the US dollar, rising 0.4 US cents to 71.25 US cents.

The Labor Party Government and Confederatiou of Auetralian Industry cautiously welcomed the figures, with Mr Paul Keating, the Federal Treasurer, warning that the current account deficit still remained "unsustainably high".

The A$428m figure compared with a revised A$694m in December and A$1.38bn u year ago. It hrings the cumulative fignre for the first seven months of the financial year to A$6.7bn, up 24 per cent on last year.

Though the visible trade surplus of A$518m was a record, it was the product of falls in both exports and imports – and particularly in imports of machinery and transport equipment and of fuels.

NZ to tax capital gains

NEW ZEALAND'S Prime Minister Mr David Lange told parliameut his Government wouid introduce a capital gains tax as part of its tax reform programme, **Reuter reports from Wellington.**

Mr Lange said during a debate on the economy that reforms already announced had not been completed. "There are still fields to conquer. . . . What will happen uext is entirely predictabie, it's entirely inevitable, and it will he a form of capital gains tax."

Election tensions test Senegal's fragile openness

BY NICHOLAS WOODSWORTH IN ABIDJAN

TENSIONS are building in the campaign leading to the Senegalese presidential elections, due to take place on February 28, amidst opposition party calls for revision of a controversial electoral code.

One of Africa's rare democracies, Senegal is distinguished by open political debate, a free press, regular elections and currently no fewer than 16 political parties. Dominated by the veteran African poet and politician Leopold Senghor for most of its post-independence history, Senegal has since 1960 been governed by the Socialist Party (PS) he founded. However, the PS's adoption of radical IMF austerity and state disengagement programmes since the last presidential elections in 1983 makes the February election the most contested in Senegal's history.

The election, which will include voting for a legislative assembly, is also being seen by foreign observers as a test of African democracy. While the chief opposition party, the centrist Democratic Party of Senegal (PDS) was recorded in 1983 as having won less than 15% of the popular vote, there were widespread accusations of massive vote-rigging, a contention supported by independent observers and the foreign press. Abdoul Diouf, Mr Senghor's PS successor and winner of the election, denied that any such malpractice took place.

The PDS and the other two parties (both left-wing) contesting the presidency have called for major changes in the electoral code. Wishing to avoid what PDS candidate Abdoulaye Wade calls 1983's "electoral cuup d'etat", they have demanded the obligatory use of the secret ballot, the presentation of voter's identification papers, and the presence of opposition party scrutineers at all polling stations. Vote-rigging in the 1983 elections, they say, was only too easy because none of these measures is provided for in the electoral code.

President Diouf's refusal to consider any modification to the code has resulted in mounting tension and the possibility of political violence. While Mr Diouf has stated he will not tolerate any form of electoral disorder or destabilisation, his chief opponent Mr Wade has threatened to occupy the Ministry of the Interior on the night of the election and proclaim a "movement of national liberation" should there be any hint of electoral malpractice.

Mr Diouf is supported by strong elements of Senegal's traditional power base, as well as by two of the country's largest Islamic brotherhoods - organizations that in Senegal wield great political influence. He is expected by most observers to be returned to a second five-year mandate.

Family planning has become inextricably linked with politics under Reagan, reports Janet Bush

Pro-abortion lobby calls on the law for support

FORMIDABLE OPPOSITION is being marshalled to fight off a last ditch assault by President Reagan, as he nears the end of his final term in office, on the freedom of women to have a legal abortion in the US.

Four lawsuits hold their preliminary hearings this week in an attempt to overturn a Reagan-inspired directive which would hamper more than 4,000 family planning clinics, which are partly funded by public money under what is called the Title 10 programme. The clinics serve about 5m mostly poor women each year, providing counselling and minimal information about abortion.

Opponents of the new rules argue that they contravene the basic constitutional rights of freedom of speech and privacy, that they run counter to the spirit of Congressional support for legal abortion and that they represent a wholly political intervention in the medical profession.

"Reagan wants to turn clinics into propaganda centres, not health centres," said Ms Eve Paul, vice-president of legal affairs at the Planned Parenthood Federation of America.

Abortion and politics have seemed inextricably linked under the Reagan presidency which, bolstered by the support of a band of Christian fundamentalists, has consistently voiced its opposition on abortion. However, the Administration has been unable to wring any anti-abortion concessions out of Congress which has been staunchly pro-choice.

The issue again came to the fore as the Presidential campaign got underway, notably because of the early success of Mr Pat Robertson, the former television evangelist (or Christian broadcaster as he prefers to be called).

Mr Robertson made headlines earlier this month when he accused Planned Parenthood of wanting to create a master race.

'Reagan wants to turn clinics into propaganda centres, not health centres'

All the candidates running for the Democratic nomination support the legality of abortion although there is some worry within the family planning profession about Representative Richard Gephardt, winner of the Iowa caucuses, who has professed himself to be anti-abortion until he announced he was running.

The regulations, which will go into effect on March 1 unless they are successfully challenged in the courts, stipulate that family planning clinics which receive federal funds may not provide abortion counselling and may not refer pregnant women to medical practitioners offering abortion facilities.

The new regulations would effectively forbid the word "abortion" to be mentioned by a doctor counselling a pregnant woman who had walked into the clinic.

They would also mean that clinics with both publically funded family planning programmes and privately funded abortion facilities under one roof would have to have "separate entrances, separate waiting rooms, different phone numbers, two sets of headed notepaper and strict separation of pencil supplies," as one opponent of the regulations put it.

Ms Rachael Stine, staff attorney for the American Civil Liberties Union's Reproductive Freedom Project which will represent Title 10 clinics in the New York area, says: "These regulations effectively censor doctors from talking about one set of concepts – abortion – and virtually compel them to discuss another – childbirth."

Mr Scott Swirling, executive director of the National Family Planning and Reproductive Health Association which represents the clinics currently receiving public funds, said: "These are political regulations, not public health regulations, designed as a sop to the right-to-life lobby by an Administration which has failed to pass any of its anti-abortion plans through Congress."

He said the regulations would have a devastating impact on health care for poor women but is confident that the law suits in Denver, Boston and New York, where two separate court cases are being held in parallel, will overturn the directive.

An impressive array of organisations is vehemently opposed to the new rules including the American Medical Association, the American College of Obstetricians and Gynaecologists and the American Nurses Association.

At issue is a provision called Title 10 of the 1970 Public Health Services Act which established federal funding for family planning but stipulated it should not be used for abortion activities.

The Title 10 clinics argue that they have been scrupulous in keeping their financing separate while the Department of Health and Human Services (DHHS) contends that the new regulations are necessary to ensure that this separation is complied with.

Even more central to the current controversy, however, is a set of guidelines issued by the DHHS in 1981 which required Title 10 clinics to offer abortion counselling on request and referrals to doctors who could perform abortions. The new regulations abruptly reverse these guidelines.

Ms Nabers Cabaniss, deputy assistant secretary for the Population Affairs division of the DHHS, argues that compliance

'The spirit of the statute definitely favours child-bearing and disfavours abortion'

with the separate financing stipulation of Title 10 needs to be tightened. She also said the department is concerned that the guidelines requiring doctors to give abortion counselling had actually led to aggressive promotion of abortion as an option for pregnant women.

She argues: "The spirit of the statute definitely favours child-bearing and disfavours abortion...the client must not confuse family planning with abortion activities."

Opponents of the new ruling counter with the argument that Congress has readily re-enacted Title 10 in full knowledge and support of the guidelines requiring abortion counselling.

The court cases will be fought against a background of some uncertainty. Although, according to Ms Paul of Planned Parenthood, opinion polls have consistently shown that the public supports the women's right to choose an abortion, there have been some signs of wavering support in Congress.

A civil rights bill, fought for fiercely by women's groups among others, was recently passed by the Senate complete with an anti-abortion amendment much to the dismay of those same women. Senator John Danforth, a Missouri Republican with a staunch anti-abortion record, put forward the amendment and won the support of presidential hopefuls Senator Bob Dole and Vice-President George Bush who broke off their Iowa campaigns to vote for it.

Even some Democrats appear to be concerned about official party support for abortion rights. Mr Patrick Moynihan, Democratic Senator for New York, was reported to have told a group of women urging him to vote against the Danforth amendment: "You women are ruining the Democratic Party with your insistence on abortion."

Bendjedid reshuffles Cabinet ministers

BY FRANCIS GHILES

PRESIDENT Chadli Bendjedid of Algeria has given his Cabinet a major reshuffle, switching Mr Kasdi Merbah, the Minister of Agriculture, to the Ministry of Health. Mr Mohammed Rouighi will leave the Ministry of Hydraulics to take the agriculture portfolio.

Bendjedid: moving ministers

Mr Merbah, who throughout the 1970s was the much feared head of internal security has had considerable success over the past four years in reforming the farming sector and doing away with the rigid controls of a collective system which had led to a collapse of production and increasing dependance on imports.

Last year, purchases of food abroad cost Algeria about one-quarter of the estimated $6.2bn. Encouraging experiments are also being conducted in desert farming in such oasis as El Oued, Ouargla and Adrar.

Mr Merbah will need all the authority he can muster to clear up the problems confronting the health service which boasts many good doctors but very weak para-medical services. The extraordinary mismanagement of the state pharmaceutical purchasing office, Enapharm, was vigorously denounced two weeks ago in the Algerian weekly, Algerie Actualites.

The new Minister of Agriculture has worked closely with Mr Merbah in developing water resources, a policy which enjoys considerable support from the World Bank.

Thanks to the severe austerity policies adopted in 1986, Algeria's balance of trade had a surplus of about $2bn last year. But servicing a debt estimated at about $20bn will cost at least 55 per cent of exports this year, assuming that both a steadier dollar and less variable crude oil price allow exports to rise to around $9bn.

● The first meeting of the joint UK-Algerian economic commission is holding its first meeting at present in London. The Algerian delegation is lead by Mr Belkacem Nabi, the Minister of Energy.

US loan to Argentina heads off crisis

By Tim Coone in Buenos Aires and Alexander Nicoll in London

A $550m bridging loan arranged by the US government will help Argentina head off a foreign exchange crisis as the country negotiates the final details of conditions for release of money from the International Monetary Fund and commercial banks.

It is understood that the Washington talks with the IMF were making progress but that Mr Michel Camdessus, the Fund's managing director, had yet to give his final recommendation for the executive board to approve release of a $225m tranche of a standby loan.

Announcement of the bridging loan was made in Buenos Aires by the Central Bank president, Mr Jose Luis Machinea, as it became clear that release of the tranche had still not been approved by the IMF despite assurances that agreement had been reached from Mr Juan Sourrouille, the Economy Minister, following his return from Washington at the weekend.

Mr Machinea said the bridging loan will be repaid with the funds coming from the standby tranche, once it is disbursed, together with $150m from the IMF compensatory financing facility for loss in export earnings due to declining terms of trade, and a further $170m agricultural development loan from the World Bank.

A new letter of intent defining monetary and fiscal policy targets during the coming months is to be drafted in the remainder of the week, in the hope that IMF approval will be forthcoming by the end of the month permitting disbursement of the blocked funds.

A further $541m in fresh money from Argentina's commercial creditor banks, part of a $1.95bn loan signed last year, is conditional on IMF acceptance of the letter. Disbursement of the funds is now two months behind schedule which has caused Argentina to delay interest payments to a number of commercial banks since last December, as its foreign exchange reserves have dwindled.

Bankers said that despite the shortage of reserves, Argentina had paid the $350m of principal and interest on dollar-denominated Bonex bonds when they fell due on Monday.

The IMF has apparently been insisting on further cuts in Argentina's fiscal deficit, which the government was initially unwilling to undertake.

Mr Machinea said at the weekend that Argentina would agree to keep its 1988 fiscal deficit below 3 per cent of gross domestic product compared with over 7 per cent last year.

Contras 'hit' by currency switch

NICARAGUA said its currency change had caught US-backed Contra rebels unaware, leaving them with billions of worthless old bank notes stranded outside the country, Reuter reports from Managua.

The government ordered its borders closed on Tuesday and Wednesday to prevent rebels smuggling in the old bills. Today is the last day old bills can be exchanged for "new cordoba" notes.

Andrew Marshall on the poor prospects for solving a fiscal problem

Bad news about the US budget

"THE good news is, the deficit is going down," said Mr William Gray and the occupants of the room winced.

The deficit in question was the US budget deficit, the Administration's projection of which is to be released tomorrow. Mr Gray is chairman of the Budget Committee of the House of Representatives. It was not that they did not believe him, but his London audience of last week, largely drawn from the financial sector, knew that every piece of good news in the US these days is followed by something bad.

"The bad news," said Mr Gray, confirming their suspicions, "is that we probably won't do much better next year." Behind that lies some very bad news indeed for the next US President.

The fiscal deficit, which ballooned to over $200bn in 1985, has been a perennial source of political conflict and an Achilles heel of the American economy in the Reagan years.

In 1985, Congress produced the Gramm-Rudman plan to let the air out of the balloon slowly over a period of five years, leading to balanced budget in 1991 with annual targets for the deficit. Washington's failure to keep up with these targets was one factor behind last year's equity market crash.

Mr Gray, an urbane, politically shrewd Congressman from Pennsylvania, was part of the negotiating team which late last year forced through a package of cuts. Under pressure from falling stock markets, they achieved the necessary savings to meet targets set by Gramm-Rudman for fiscal 1988. The targets were reshuffled to make them easier to hit for next year: thus the good news.

But last week, the Congressional Budget Office projected a deficit for next year of $176bn without further fiscal action. This represents an increase of some $30bn on this year, despite the cuts agreed last year. Lower economic growth and higher interest rates have eroded the effect of the summit package. Thus the bad news.

The bottom line for this year's budget negotiations is that new cuts of $30bn are required this year to bring the deficit into line with the Gramm-Rudman targets. The chances of getting these cuts through before the election is minimal. The political agony required is just not feasible in an election year, says Mr Gray, and the best that can be expected from Washington is that fiscal policy will be no worse than envisaged in the agreement.

As a tactical move, the Congress is likely to accept the more optimistic deficit projections offered by the President's Office of Management and the Budget, which form the basis of the President's budget, due to be presented tomorrow. Though few believe the President's budget is fiscally credible, it offers a politically easy way out of trouble for the next few months.

But when the final Gramm-Rudman projections are released in October, the scale of the shortfall is likely to become clear. Congress will have to return after the elections for another emergency deficit-cutting session to meet the targets. Mr Gray believes that they will duck the task, and postpone the targets yet again.

The budget problem is thus likely to drop neatly into the lap of Mr Reagan's successor. Mr Gray's hope that is the incoming President, straight from the polls and with fresh stocks of political capital, will take the bit between his teeth and deal with the deficit. His exhortation to the next President is to "put on your flak jacket, put on your helmet, get down in the foxhole and hold on".

The bipartisan National Economic Commission, of which he is a member, is working on fiscal options which it will deliver in March. These are planned to form the basis of a credible, long term deficit reduction plan based on Gramm-Rudman.

It is difficult to judge the commitment of the various candidates to fiscal rectitude, despite the balanced budget rhetoric from the Right. For such a central issue, deficit reduction has received little attention in the campaign.

Unfortunately, there is little to gain and much to lose by getting into specifics. All the evidence continues to suggest that, despite their concern about the deficit, voters are not prepared to pay the price to solve the problem. No-one wants to get tagged as the candidate who would raise taxes or cut spending.

But the really bad news, as Mr Stanley Collender of Touche Ross points out, is that even a President committed to deficit reduction may be in too deep before he starts. Holding the fiscal line may not be economically feasible. What happens if, as many economic commentators expect, the economy slides into recession in early 1989?

Cutting the deficit then becomes economically counter-productive.

Deficit reduction would also be politically lethal. Even on the basis of a mild recession lasting two quarters, Mr Collender estimates a need for cuts of some $60bn to hit the Gramm-Rudman target for fiscal 1990, a quite impossible task.

Under this pressure, the general expectation is that Washington would postpone the pain for yet another year, which in case of recession is permitted by Gramm-Rudman. The only logical thing to do would be to wait for the next upturn to get underway, probably in early 1990.

Cynics may remember that under the original Gramm-Rudman plan, this was the year that the budget was planned to balance. That target, receding with the political horizon, would be rescheduled until 1996 or 1997.

US to speed up distribution of AIDS drug

By James Buchan in New York

THE US Government, responding to intense pressure from the thousands of Americans suffering from Acquired Immune Deficiency Syndrome, said yesterday it would speed up distribution of a new drug to treat one of the most dangerous AIDS infections.

The highly experimental drug, known as Trimetrexate, is the first to be rushed out to AIDS patients since the Food and Drug Administration last summer relaxed some of its most stringent new-drug requirements in response to the AIDS epidemic.

The drug, which is toxic in big concentrations, will treat a form of pneumonia that is one of the main causes of death for victims of AIDS.

The drug will go out to two groups of patients, numbering some 1,100 people.

"Today's action reaffirms FDA's commitment to broaden early patient access to promising experimental treatments for AIDS," said Dr Frank Young, commissioner of the FDA, the government authority responsible for licensing new drugs.

Yesterday's announcement comes amid a clamour of criticism from patients and their supporters that the FDA and the National Institute of Allergy and Infectious Diseases, which runs the Federal government's drug-testing network, were blocking access to promising drugs.

Though eight AIDS-related drugs are being tested in trials sponsored by the US Government, only about 3,000 patients are involved. About 52,000 Americans have contracted the fatal disease since the beginning of the 1980 and 29,000 have died.

The main treatment remains AZT, a severely toxic drug which is made by the Burroughs Wellcome subsidisry of Wellcome of the UK. The drug, which went into accelerated clinical trials before the new regulations, has been found to prolong the lives

Trimetrexate, first synthesised by Warner-Lambert in 1969, was proposed in 1985 as a potential treatment for Pneumocystis Carinii Pneumonia, which is one of the most common opportunistic infections to attack AIDS sufferers.

Borja edges ahead in Ecuador election

BY SARITA KENDALL IN QUITO

THE BRIEF panic which followed the first round of Ecuador's presidential elections has given way to negotiations and arithemetic.

Faced with the defeat of the goverment candidate and a choice beween Mr Rodrigo Borja and Mr Abdala Bucaram for the second round, the establishment is swinging reluctantly towards Mr Borja. His moderate left of centre platform has begun to look safe compared with Mr Bucaram's unpredictable populism.

Mr Borja's 200,000 vote lead in the first round gives him a good start and already two other political parties have offered unconditional support, now that their own candidates are out of the race.

After a rash of rumours suggesting that the Goverment favoured Mr Bucaram (mainly because of a long standing enmity between President Febres Cordero and Mr Borja), the Interior Ministry broadcast a declaration of neutrality and promised that the results of the second round on May 8th would be respected.

This, however, has done little to quell other speculation - that the armed forces could take over if Mr Bucaram wins. In fact, some people openly advocate a vote for Mr Bucaram on the grounds that a "mild" military dictatorship would be the best outcome.

But Ecuador has struggled to make democracy work since the armed forces returned to barracks in 1979. And as the country's most influential paper editorialised, the military are not likey to stage a coup to satisfy a clique of civilians.

With some 27 Congressional seats (the official count has not been completed yet), Mr Borja's Social Democrat party is in a strong position. An alliance with the Christian Democrats, who have said they will support him in the second round, would bring the numbers close to a parliamentary majority. Mr Bucaram might find it difficult to form an effective Congressional coalition among the dozen or so remaining parties.

The busy political manoeuvering has left little time for discussing programmes and policies. Mr Borja has stressed the importance of a mixed economy, with a strong role for government planning.

He favours controlled foreign investment and a further renegotiation of Ecuador's $9.2bn foreign debt. Mr Bucaram has been less specific; he relies on his image as the saviour of the poor and there are still 12 weeks of campaigning to go.

Haiti's troubles rebound on neighbours

BY CANUTE JAMES IN KINGSTON

HAITI'S tortured effort to move from three decades of dictatorship to freely elected government has had an equally painful effort on its neighbours.

Amid a fair degree of confusion, compounded by misinformation, cynicism, ideological conflicts and frequently changing positions, Caribbean leaders have found themselves arguing with each other over the attitude to be adopted towards Haiti, and to government of president elect Leslie Manigat.

Mr Herbert Blaize, the Prime Minister of Grenada, had earlier suggested a United Nations examination of Haiti's controversial elections to determine whether the voting was fair.

Mr Blaize now says he is supporting Mr Manigat. So is Mr Edward Seaga, the Prime Minister of Jamaica, and President Jaoquin Balaguer of the Dominican Republic, which has a common border with Haiti.

But the governments of Trinidad and Tobago, Barbados and St Lucia have indicated that they are not happy with the conduct of the Haitian elections, and will keep their distance from a government led by Mr Manigat.

The confusion was clear in a regional summit just before the January 17 elections, when the 13 member Caribbean Economic Community criticised the conditions under which voting was proposed by Haiti's military rulers, but did not rule out the possibility of recognising the new government. In the words of Miss Eugenia Charles, the Prime Minister of Dominica: "Bad elections are better than no elections."

The Caribbean leaders said the voting would be "seriously compromised and cannot therefore be regarded as credible." They also attacked the decision of four leading candidates in the November elections to boycott the poll, and asked the military government in Haiti to remove "the offending features of the electoral process".

Since then, however, the region has been split over how the deal with the developments in Haiti. While some countries, including Barbados, Trinidad and Tobago and St Lucia, have gone beyond what was agreed in the summit, and have indicated that they will have nothing to do with the government elected in Haiti, Jamaica sent an observer to the elections and then promised its support to the new government.

The interest in Haiti is based not only on geographical proximity. The country has a long standing application for membership in the Caribbean economic community. The Duvalier dictatorship, which made the application, had to be satisfied with observer status on some standing committees of the community.

The Caribbean disagreement on Haiti started when Mr Seaga organised a splinter group widely criticised as giving more than tacit support to the Haitian military government, and to its sponsored elections. The group, the concerned Caribbean leaders, visited Haiti in December after the abortion of the November 29 voting, which was abandoned when 34 voters were murdered by armed gangs. Besides the Jamaican leader, it included the prime ministers of St Vincent, St Lucia, the Netherlands Antilles and Aruba.

After a meeting with Lt Gen Henri Namphy, the Haitian army chief, Mr Seaga said the military had promised "proper security" for last weekend's voting. He suggested that the military should be blamed for all that happened on November 29, and that he had received assurances that the voting would be properly administered.

But when the Haitian Government decreed later that voting would be through open balloting, Mr Seaga said this was "unacceptable" to the Caribbean group, and that the military government had been told of this.

At the same time, other leaders appeared to be taking a hard line on Haiti. Mr John Compton, the Prime Minister of St Lucia, said the Haitian army were "the ones with the guns, and they control the situation. If they do not want elections to take place, there is little the international community can do." The elections in Haiti, he argued, "do not satisfy a minimum criteria of being free and fair".

Based on these statements, and on public criticism of the Haitian military by the governments of Barbados and Trinidad and Tobago, the summit had been expected strongly to condemn Haiti's military rulers, and the conditions under which they were staging the elections.

The mild rebuke of the Haitian rulers, and the absence of a strong statement distancing the community from the government emerging from the elections, were said by conference sources to have been a victory for Mr Seaga and an endorsement of the Jamaican position.

It was not long, however, that the summit's position was roundly attacked as being sympathetic to the Haitian military. This led individual governments to take positions harsher than those contained in the communique. "The communique could have been stronger," suggested Mr Basdeo Pandey, Trinidad and Tobago Foreign Minister.

The rift in the region has since grown. While several countries refused to send observers to the controversial elections, Mr Seaga sent Dr. Neville Gallimore, Jamaica education minister.

"Jamaica is not joining other nations who are washing their hands of Haiti," the Jamaican Prime Minister said. "It is interesting, to say the least, that states which accorded diplomatic recognition to the tyrannical Duvalier regime should now contend that recognition should not be given to the government to be elected... Albeit under less than perfect conditions."

The Jamaican position has come under further attact from Sir James Tudor, the Foreign Minister of Barbados. He said that as far as Jamaica's submission of a fair poll in Haiti is concerned, it is difficult to state the opposite of the truth with greater precision.

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WORLD TRADE NEWS

Japan's plan for farm reform attacked in Gatt

BY WILLIAM DULLFORCE IN GENEVA

JAPAN's proposals for reforming world farm trade came under fire in the General Agreement on Tariffs and Trade's negotiating group on agriculture over the past two days and were stubbornly defended by the Japanese.

The European Community charged that Japan was seeking to evade its responsibility as a major importer to open up its market to foreign produce. The US refused to accept Tokyo's equation of national food security with levels of self-sufficiency in domestic production.

Australia, leader of the 13-nation Cairns group, accused the Japanese of backtracking on commitments to liberalise agricultural trade taken at last year's seven-nation Venice summit and at the last ministerial meeting of the Organisation for Economic Co-operation and Development.

While recognising the considerable political feat performed by the administration of Mr Noboru Takeshita in putting together a farm trade offer against resistance from the powerful farmers' lobby, most speakers rejected the outcome.

They have complained that Japan, a major importer, was happy to follow the US and Cairns group in demanding an end to export subsidies on farm products but was also trying to introduce a new Gatt regime that would allow it to continue huge domestic subsidies to its rice producers and other small farmers.

Japan was taking over from the European Community the role of laggard in the farm talks, one Cairns group negotiator commented.

Mr Yoshio Hatano, head of the Japanese delegation, affirmed its proposals were fully in line with the OECD and other agreements. Japan recognised the importance of letting market forces function more effectively but negotiations had to take into account the roles agriculture played in ensuring a stable food supply.

Central to the Japanese approach is a country's right to maintain "a certain level of domestic production of basic foodstuffs". This, said Mr Hatano, called for a clear distinction between export and domestic subsidies.

Japan agreed, however, that domestic subsidies should be subjected to Gatt discipline, the details of which could be worked out during the current negotiations. As a gesture of goodwill, Tokyo proposes over five years to lower to their 1980 level government subsidies on farm products in "structural surplus" - such as rice.

The discipline on domestic subsidies sought by Japan would extend the scope for exceptions to the general rule provided for in Gatt, but, Tokyo argues, this "improvement" would restore the balance of rights and obligations between importing and exporting countries.

Philips, Soviet Union sign Fl 26m chip deal

BY LAURA RAUN IN AMSTERDAM

PHILIPS, the Dutch electronics group, is to supply the Soviet Union with semiconductor equipment and technology for producing diodes in a contract worth Fl 26m (£7.8m). The company sees the deal as a breakthrough in a promising market.

The contract was signed in Moscow and still must be approved by the respective governments Philips said yesterday.

But it did not envisage any problems with the deal because it does not involve equipment or technology that would infringe regulations under CoCom, the accord among Western countries to restrict the flow of high technology to the Soviet Union.

Diodes are commonly available electronic components used in most consumer products, notably television sets.

The production equipment, to be supplied by Philips' Elcoma division to the Soviet Ministry of Electrical Industry, will probably be installed in an existing factory in Tomilino, near Moscow.

Soviet deal to dredge port in Argentina

By Tim Coone in Buenos Aires

A SOVIET company, Technostroyexport, has won a $165m (£91m) contract to dredge one of Argentina's principal grain ports at Bahia Blanca. The port's director, Mr. Jorge Cincunegui, said that when work was completed in about three years, Bahia Blanca will be "the best and most important port in the country".

The Bahia Blanca project involves dredging the harbour area and a 100km access canal to a depth of 45ft which will allow ships of up to 60,000-70,000 tonne capacity to enter and leave at all states of the tide. This will potentially double the port's capacity.

In the first 10 months of 1987, 2.2m tonnes of grain were shipped out of Bahia Blanca which is the most important wheat port in Argentina.

A study published last year estimated that Argentina's ports were among the most expensive in the world, mainly because of the shallow draught in most harbours.

Many ships calling at Argentinian ports cannot, for example, load to full capacity because of the draught problem which increases freight costs.

In a related development, a World Bank loan of $38m is to be used to rebuild the No 5 grain silo at the port, destroyed by fire three years ago.

Or Rodolfo Terragno, Minister for Transport and Public Works, said the Soviet bid for the contract was 19 per cent cheaper than that of a rival French group.

In addition, the Soviet company accepted the contract as being equivalent to the purchase of machinery and equipment which enables Argentina to fulfil obligations under trade agreements signed in 1982 and 1984.

Under the agreements, Argentina committed itself to purchasing Soviet machinery and capital goods to reduce the substantial trade deficit the Soviet Union has maintained with Argentina since the beginning of the decade.

Argentina's failure to honour the agreements, however, led to the Soviet Union reducing its Argentinian grain purchases in 1986 to a mere 580,000 tonnes, despite a five-year agreement to purchase 4.5m tonnes a year. Last year the Soviet Union bought 3.4m tonnes.

George Graham on the significance of a French-Czech venture

France builds on East bloc sales

THE SIGNATURE earlier this month of a joint venture agreement between Campenon Bernard, the French construction group, and CEDOK, the Czech tourist authority, marks a step forward in France's efforts to build up its share of the east European market.

The FFr1bn ($99m) deal, to build a hotel in Prague and renovate another in Bratislava, is the first joint venture between France and Czechoslovakia, where West Germany has traditionally been the dominant Western trading partner. It seemed enough of a breakthrough to attract the presence in Prague of Mr Alain Madelin, the French industry minister.

But Campenon Bernard, a subsidiary of the water distribution, construction and services group Generale des Eaux, is following a line of French companies which have adopted the joint venture approach, introduced a year ago in the Soviet Union and since followed in several of its satellite countries, as a way into the Eastern bloc market.

"Today I do not see any other strategic option if you want to do business with these countries," says Mr Jean-Paul Dessertine, international director of Banque de l'Union Europeenne (BUE), which has framework agreements with both the Soviet Union and Bulgaria to promote joint ventures and which was lead manager for the Campenon Bernard deal in Czechoslovakia.

Mr Dessertine says that the two main economic policy imperatives in the Eastern bloc countries are a drive for faster growth, after the more modest targets of recent years, and greater economic integration of the Council for Mutual Economic Assistance (CMEA).

But if the first imperative implies greater openness to the West to draw on its technology and its management skills the second goal contradicts this, especially when central economic plans may stipulate that as much as 85 per cent of a country's trade must be with other CMEA countries.

Two-thirds of Bulgaria's trade, for example, is with the Soviet Union, and 83 per cent with CMEA partners.

Joint ventures between Eastern bloc and Western partners, however, are automatically excluded from the provisions of the national plan.

"You cannot break into this process through traditional techniques, but the joint venture seems to provide one of the best ways in, both commercially and politically," Mr Dessertine says.

It has proved laborious to get a joint venture off the ground. In the absence of a broad framework law, the Soviet Union has been keen to have all possible eventualities dealt with in the joint venture's statutes.

This has brought a number of difficulties. How, for example, do you value the land and buildings usually supplied by the Soviet partner in a country which has no property market? While the trail is still being blazed, Western negotiators have tried to include clauses along "most favoured nation" lines, allowing them to catch up if better terms are later won for another joint venture.

Partly as a result, only relatively small joint venture deals have been signed so far. France has so far completed three contracts with the Soviet Union - a hot metal spraying plant, a plastic bag and flower pot factory, and a software venture.

Larger projects such as those of Pechiney for an aluminium packaging plant, or of Thomson for a factory producing 600,000 television sets a year - partly for re-export to France - are expected to take much longer to negotiate in detail.

Big contracts which have already been signed, such as the crane manufacturing plant deal signed by the West German subsidiary of Switzerland's Liebherr, have in many cases in fact been the conversion of an existing cooperation arrangement into a joint venture.

BUE, which has signed a general agreement with the Soviet Union's foreign trade and central banks to promote joint ventures, now aims to create a risk capital fund to invest in future ventures, possibly beginning with Pechiney's. If a joint venture bank appears unlikely, joint ventures covering specific activities such as audit or leasing may be set up in the future.

ELLE TO PUBLISH IN CHINA

HACHETTE, the French publishing group, said yesterday that Elle, its glossy fashion magazine, would be published in China, Raymond Snoddy writes.

The company has signed a joint venture agreement with the Shanghai Publishing House and Hachette believes it will be the first time a Western magazine has been published in China.

Hachette has joint venture deals with Mr Rupert Murdoch's News Corporation for producing both the American and British editions of Elle. Two issues of Elle will be produced in China this year and four in 1989.

The first edition will show a selection of fashion from around the world and contain advertisements "even if certain products are still unknown in China".

The magazine would be distributed through 4,000 points of sale in China.

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Congress returns to trade bill

BY NANCY DUNNE IN WASHINGTON

THE US Congress went back to work yesterday on the omnibus trade bill which the Democratic leaders have vowed will pass, if necessary, over a Presidential veto.

Mr Jim Wright, the House Speaker, said earlier this week that the 150-member conference committee would vote on the final version of the bill by March 23.

The House and the Senate have passed trade bills which are similar but differ in important respects and the conference committee has now to determine the shape of the final bill.

The final version is then scheduled to go to the House floor by April 1. A target date was not given for a Senate vote.

Mr Wright added: "No question in my mind, we'll pass a trade bill . . . with enough votes to override a veto, should that be necessary".

President Reagan has frequently threatened to veto a protectionist trade bill. However, the White House is hoping the final version will be stripped of its most objectionable features so that the President can obtain the provisions he needs, such as the negotiating authority for the current round of multilateral trade talks.

The President's hand has been strengthened by the recent improvement in the US trade figures.

The most controversial provision, sponsored by Congressman Mr Richard Gephardt, who is seeking the Democratic nomination for President, is caught up in a tangle of election year politics. The Gephardt Amendment threatens retaliation against countries with large trade surpluses with the US.

It is believed that Democrats in the House and even Mr Gephardt will agree to weaken the Amendment but they are closely watching the results of the Presidential primaries. If Mr Gephardt performs strongly in the primaries, Democrats may be less inclined to water down the amendment.

Mr Lane Kirkland, president of the AFL-CIO, which supports the amendment, has said he would agree to a compromise.

"We continue, with the support of the Speaker, to insist that whatever comes out must be substantive, must be forceful, and must be effective and not simply an expression of pious good wishes."

Mr Wright said he has met Mr James Baker, Treasury Secretary, and Mr Clayton Yeutter, the US Trade Representative, in an effort to work out compromises.

Seoul to reduce footwear exports to Italy

SOUTH Korea has agreed voluntarily to reduce its exports of footwear to Italy until 1990, the Trade and Industry Ministry said yesterday, AP reports from Seoul.

South Korean Ministry officials said the accord was reached during talks in Brussels with the European Community.

The accord calls for South Korea to ship 12.6m pairs of footwear to Italy this year, with a provision allowing for an annual growth rate of 5 per cent until June 1990.

Last year, South Korea shipped 15.1m pairs of footwear to Italy, according to the Korea Footwear Exporters Association.

Shamrock touch to duty-free at Moscow

By Our Dublin Correspondent

PASSENGERS at Moscow's Sheremetyevo airport will be in for something of a culture shock in future: from next May the Irish are moving in.

Under the terms of a contract signed with the Soviet carrier Aeroflot in Moscow yesterday, the Irish airports authority, Aer Rianta, and Aeroflot will jointly run two duty-free shops at Sheremetyevo which deal with 6m international and 14m domestic passengers each year.

Blessing for Aer Rianta's involvement is believed to have come from the Kremlin itself: Mr Eduard Shevardnadze, the Soviet Foreign Minister, is said to have lobbied for the Irish after being impressed by the duty-free shops at Shannon during stopovers.

Pan Am, the American airline, originally bid for the Sheremetyevo contract but dropped out last month.

Initially 20 staff from Shannon airport in Ireland will go as sales assistants to Moscow. Both Irish personnel and 150 Soviet staff at the duty-free shops will wear uniforms with a logo featuring the Irish shamrock and the Kremlin Star.

Aer Rianta will supervise the shops and sell Irish goods, particularly Irish whiskey, at the shops and on Aeroflot flights. It estimates that annual turnover from the Moscow shops will be $20m (£11m).

Toyota move on Philippine assembly line

A CONSORTIUM led by Toyota of Japan is to spend $29m (£16m) on a project to refurbish a car assembly line in the Philippines if its application is approved by the Government, Richard Gourlay reports from Manila.

In its application to the Board of Investments, the Japanese company said the consortium would buy the assembly equipment of Delta Motors, which assembled Toyota cars until 1984.

Toyota would take a 25 per cent stake in the local consortium, while Mitsui of Japan - its partner in the Delta Motors venture until 1984 - would take 15 per cent; and a Filipino group, unnamed, 60 per cent, Toyota said.

UK NEWS

Government sees £6.9bn surplus during January

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

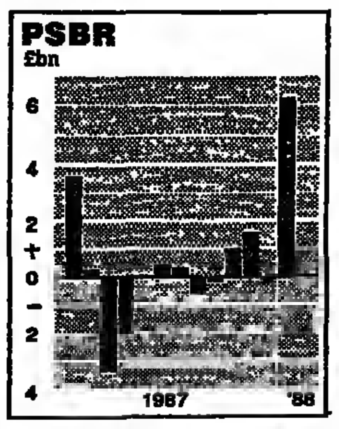
THE Government yesterday confirmed the ample scope for sharp cuts in income tax rates in the March 15 Budget with figures showing that its finances this year are likely to be in surplus for the first time in nearly 20 years.

According to the Treasury, government revenues in the 10 months to January – the first 10 months of the current 1987-88 financial year – were running far ahead of spending, leaving a surplus on the public sector borrowing requirement of £6.9bn.

The figures suggest that Mr Nigel Lawson, the Chancellor of the Exchequer, will be able to announce tax cuts worth perhaps £4bn or more in the budget while maintaining a "prudent" stance on borrowing. They will also intensify pressure on the Treasury to soften its refusal to provide additional resources for the National Health Service.

Mr Gordon Brown, Labour's Treasury spokesman, said yesterday the Government was "overflowing with cash while the NHS staggers from crisis to crisis". But the Treasury reaffirmed yesterday that there should be no expectations of extra cash in the budget.

In November the Treasury forecast a PSBR deficit of £1bn for the current financial year. Yesterday it acknowledged that it had been too pessimistic for the second consecutive year. A spokesman said that no new estimate would be available before the bodget, but it is thought that internal Treasury projections now point to a sizeable PSBR surplus.



During the last two months of the financial year the PSBR traditionally shows a small deficit, but if the pattern of the past few years is repeated a surplus for the whole of 1987-88 of between £3bn and £4bn would still result. That would allow Mr Lawson to claim to be the first Chancellor to "balance the budget" since the Labour Chancellor Mr Roy Jenkins in 1969-70.

Yesterday's figures underline the favourable impact on tax revenues of the surge in economic growth last year, which has boosted receipts from income, corporation and value added taxes. In January alone corporation tax receipts surged to £6bn from £5bn in the same month a year earlier. In parallel, the Government has managed to keep public spending well within its targets.

Much of the benefit of the additional revenues will spill over into 1988-89, giving Mr Lawson the option of announcing a radical package of cuts in tax rates oo March 15. It is thought in Whitehall that he wants to cut the basic rate of income tax to 25p and significantly to reduce and simplify the top rates.

The general expectation is that the top rate will come down from the present 60p to 50p but more recent speculation has centred oo a top rate of 45p, with only one other higher rate of 35p.

In theory, the Government's Medium Term Financial Strategy would allow it to announce tax cuts of up to £10bn next month, but official concern about inflation and a worsening trade outlook are likely to persuade the Chancellor to be more cautious.

The Bank of England is concerned that the target for public borrowing next year should be no higher than the likely outturn in 1987-88.

The detail of yesterday's figures shows that Government receipts in the first 10 months of the year were over 11 per cent higher than a year earlier as a result of buoyant earnings, profits and surging spending.

Brum tries a facelift to heal its '60s scars

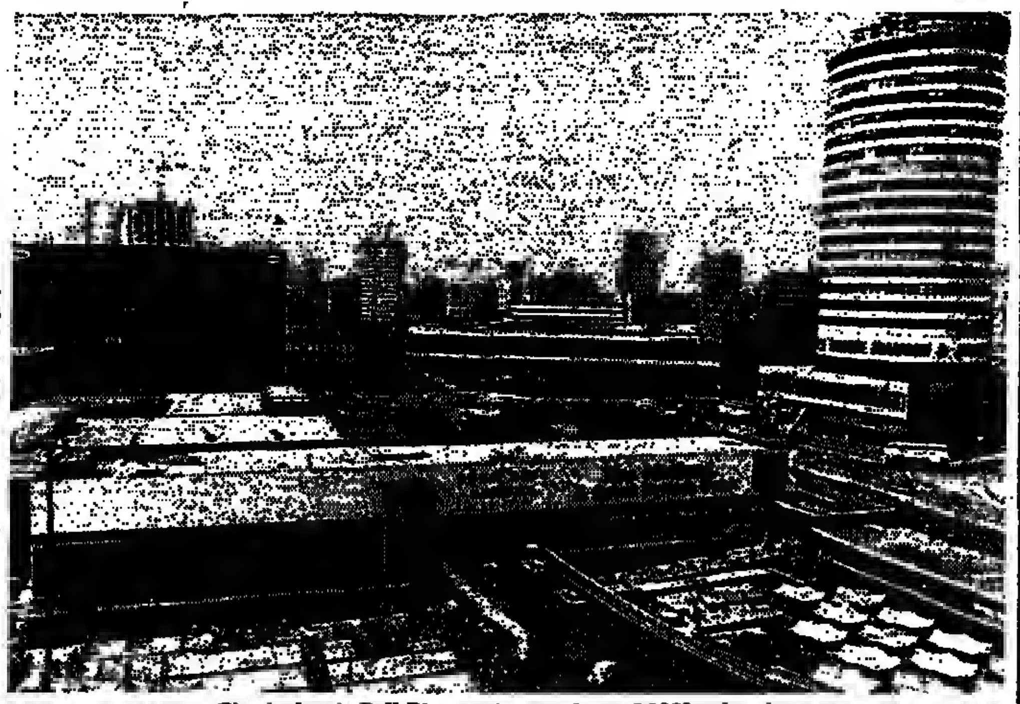
ATTEMPTS to shed Birmingham city centre's reputation as a monstrous carbuncle on the face of a not-very-much-loved friend are reaching fever pitch as the opening of its International Convention Centre in 1991 approaches.

The city council said yesterday that it was inviting 50 international architects and planners to a symposium next month to discuss ways of improving Birmingham's appeal and turning it into one of the world's great cities.

Just three weeks ago, the council announced that it was inviting architects from nearly 300 countries to take part in an architectural competition to design buildings for six key sites around the city centre.

Both moves are part of a campaign launched last October to help rid Birmingham of its "coocrete jungle" image. The city fathers are painfully aware that if that old-fashioned, popular entertainment, the music hall existed any more, Birmingham – popularly known as Brum – would probably be one of its standard jokes.

Its centre is an archetypal example of the worst excesses of 1960s planning, when vast swathes of the city gave way to demolition and redevelopment. Two of the best-known products were the drab Bull Ring shopping centre and the Rotunda, a featureless, cylindrical office building which protrudes above the city skyline and serves as its only notable landmark.


Birmingham's Bull Ring centre: product of 1960s planning

Another product of that era was the ill-conceived inner ring road, a city centre motorway which separates the heart of Birmingham from its inner suburbs and consistently confuses visiting motorists trying to obtain access to the centre.

The development of the £121m convention complex now being built around the central Broad Street area is part of the city's strategy of replacing lost manufacturing jobs with those in service industries, such as the exhibition and conference business, tourism, and leisure.

Local planners recognise that if this strategy is to succeed, Birmingham will first have to put itself on the international map: to do that, it needs to change its image and physical appearance.

Partly as a consequence, the city is entering a £1bn construction boom in which the biggest single development is likely to be the £250m reconstruction of the Bull Ring area by London & Edinburgh Trust, the property group.

Local enthusiasm about these developments is running high, but those with long memories ruefully recall a similar atmosphere 25 years ago and wonder what is to prevent a repetition of yesterday's mistakes. Nerves are therefore raw and easily touched.

Last November, for example, Prince Charles unleashed a furore while visiting the city, by describing the centrepiece of the proposed International Convention Centre as "a concrete missile silo."

Expatriates offered home loans for Spain

By David Lascelles

ABBEY National, the UK building society, is to offer mortgages to expatriates who wish to buy property in Spain.

The loans will be made under new powers granted to UK building societies under last year's Building Societies Act to make loans overseas in other EC countries. Abbey said yesterday that it believed it was the first society to take advantage of this new opportunity.

The loans will be made through a newly constituted subsidiary in Gibraltar which will enable most of the documentation to be prepared in English, and the loan itself to be denominated in sterling. Abbey has secured the services of Spanish lawyers and valuers to facilitate the transactions.

Loans will be charged at a fixed margin, initially 3 per ceot, over the UK base rate which is now 9 per cent. The minimum loan is £15,001, with no maximum, with a minimum term of five years and a maximum of 15. Loans will be made up to 60 per cent of the purchase price or valuation.

The service aims to provide a mortgage which is as close to the UK version as possible. The mortgages will initially be made on properties from Malaga to the Gibraltar border.

Output up strongly despite share crash

BY SIMON HOLBERTON

BRITISH industry'e outpnt grew strongly in the fourth quarter of last year indicating that the October collapse in share prices had little or no immediate impact on UK industry and that the economy continues to grow at a pace not seen since the early 1970s.

Figures released yesterday by the Central Statistical Office show that manufacturing production in the fourth quarter was 5.6 per cent up on the same period a year earlier. It was 1.4 per cent higher in the final quarter compared with the third quarter.

Whitehall officials, however, believe that manufacturing output is growing at an underlying rate of 6.5 per cent. Officials said that on the basis of the data they have up to the end of December there are no signs that the economy is slowing down.

Taken with Monday's retail sales figures for Jannary, which showed a growth rate of 6 per cent on the year, yesterday's figures confirm a picture of an economy where both output and demand have remained buoyant and proved extraordinarily resilient to the events of last October.

The figures for industrial production and retail sales have confounded many analysts who believe the UK is heading for recession. The figuree add weight to those who think the economy may be continuing to grow at an unsustainable rate.

The output of British manufacturing was nearly 22 per cent higher at the end of last year than at its worst time during the recession of the early 1980s.

It is nearly 3 per cent higher than its previous peak in 1979 and some 2 per cent lower than its absolute peak during the second quarter of 1974.

The output of motor vehicles and parts grew by 15 per cent from the fourth quarter of 1986 to the fourth quarter of 1987. For the same period the output of paper, printing and publishing was up 11 per cent, other manufacturing was 11 per cent higher, while metal goods, and textiles showed gains of 8 per cent and 7 per cent, respectively.

During 1987 the rate of growth of the energy sector of the economy continued to slow, however, or, in some cases, contract.

AIDS clause makes takeover history

BY PHILIP COGGAN

THE AIDS virua yesterday emerged as an element in a corporate takeover when an acquisition document disclosed that one protagonist in the deal had been diagnosed as HIV positive.

The document also included a clause stating that the remuneration of the man concerned can be varied "should he become unable to fulfil his duties on a full-time basis."

The document related to the acquisition of Hambrecht Terrell International, a New York design consultancy, by Michael Peters, the UK design group.

It said that Mr Jim Terrell, one of HTI'e founders and president of the company, had been diagnosed as HIV positive. This does not mean that Mr Terrell has the disease; rather that he has antibodies to the human immunodeficiency virus, the official name for the AIDS virus. It is as yet unclear how many people classed as HIV positive go on to develop the illness.

Mr Terrell, priocipal io charge of design at HTI, is on a five-year contract under which he is paid an annual salary of $250,000 plus profit-related bonuses.

Michael Peters is paying about $10m (£5.7m) for HTI. "They were very upfront about the problem" said Mr Will David of Hoare Govett, the brokers advising Michael Peters. "The decisions to buy the company, and to pay that price, were taken with our eyes open."

"There is a cultural difference between Britain and the US on this issue" Mr David said. Official estimates indicate that between 1m and 1.5m Americans are HIV positive.

City of London takeover experts could not recall previous references to the AIDS virus in offer documents, or to any medical condition, such as cancer or heart disease, although frequently the key executives of a company will be insured against death or incapacity.

Job training scheme for long-term unemployed

BY PHILIP BASSETT, LABOUR EDITOR

THE Government yesterday announced a new, £1.4bn training scheme, largely for the long-term adult unemployed, and a further tightening of measures testing the availability for work of those without jobs.

Ministers believe the new scheme, Britain's largest-ever training programme, is vital if the UK is to meet the internationally-competitive challenge of a fast-changing labour market.

Opposition leaders say, however, that the scheme, although currently voluntary, will become compulsory.

In a policy document published yesterday, the Government is accepting, in full, the onanimous recommendation from the Manpower Services Commissioo to establish the new scheme.

The scheme, as yet untitled, will start in September and will replace a total of 30 separate programmes curreotly aimed at helping the adult unemployed.

The target for the new unified programme is 600,000 12-month training places annually.

Mr Norman Fowler, Employmeot Secretary described the scheme as "the most important and ambitious training programme for the adult unemployed ever brought forward in this country."

No new funds are being set aside for the scheme. It will use the £1.3bn currently deployed for the 1.1m long-term unemployed, and seek funds from employers of about £153m annually.

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UK NEWS

Britain begins tough talks on Irish breakdown

BY MICHAEL CASSELL, POLITICAL CORRESPONDENT

BRITISH and Irish ministers met yesterday in Belfast in an attempt to prevent a further deterioration in relationships between the two countries.

The scheduled meeting of the Anglo–Irish intergovernmental conference, had already been expected to involve a tough exchange of views on a series of controversial security issues. But it was further complicated by Monday's premature disclosure that the British Government intends to make permanent the Prevention of Terrorism Act.

The Act was introduced by the Labour Home Secretary, Roy Jenkins in 1974, seven days after the Birmingham Public House bombings in which 21 people were killed, as a hurried but temporary reply to a wave of IRA bombing outrages on the UK mainland.

At present, it has to be replaced by new legislation every five years and is reviewed annually by parliament.

Following the embarrassing information leak, Mr Tom King, the Northern Ireland Secretary, is yesterday understood to have explained the British Government's position fully, in advance of last night's report to the House of Commons by Mr Douglas Hurd, the Home Secretary.

News of the intended changes, and of the decision to tell the Irish Government before the British parliament *had been notified, drew immediate* criticism from members of parliament.

Dr Ian Paisley, the Democratic Unionist Leader, said it was a "constitutional outrage" that a foreign Government should be notified under the terms of the Anglo-Irish agreement before MPs had been told.

Mr Jim Marshall, a Labour spokesman on Northern Ireland, said his party would repeal the Act at the first opportunity. Making it permanent, he added, would hand a propaganda gift to the IRA and further weaken Anglo–Irish relationships.

Mr King is thought to have told Mr Jerry Collins, the Irish Justice Minister, that new legislation to make the present Act permanent will come before parliament in 1989. But he will have explained that the existing system of annual review by MPs – together with a renewal of orders governing the legislation – will continue.

Kieran Cooke looks at the breakdown in trust between London and Dublin

Anglo-Irish diplomacy turns sour

THERE IS a distinct impression in Dublin these days that the British Government is involved in a none too subtle campaign to embarrass and anger the Irish.

"Insensitive", "clumsy", "hamfisted" are just some of the more polite words used to describe moves by London over recent days and weeks. A meeting last week in Brussels between the Irish Prime minister, Mr Charles Haughey and Mrs Margaret Thatcher seemed only to add to the strain.

"Very serious" were the words used to describe the situation as the Secretary of Northern Ireland, Mr Tom King, went into yesterday's meeting of the Anglo-Irish conference, which were once chatty, and distinctly casual affairs.

Rarely have relations between the two neighbours been so difficult. At the centre of Irish anger is the British handling of the Stalker inquiry and the shoot-to-kill policy alleged to have been carried out by the Royal Ulster Constabularly in Northern Ireland in 1982.

By refusing to prosecute RUC officers said to have been involved, even though evidence had been found of a perversion of justice, Dublin believes London has betrayed the 1985 Anglo-Irish agreement, which gave the South a say in the affairs of the North.

Few signs of progress were evident yesterday after the four-hour meeting of the Anglo-Irish conference. A brief communique said only that both sides had considered their positions and that the Irish ministers would report back to the Government in Dublin.

The Irish Prime Minister, Mr Haughey will today make a statement on Anglo-Irish relations to the Dail, the Irish Parliament.

Dublin also believes that the nationalist community in the North has lost faith in the administration of justice and given grist to the propaganda mills of the IRA.

Britain, it is felt, has acted more like the old colonial rather than a partner in the struggle to find a solution to the problems of the North. By itself, the Stalker issue would need a great deal of deft diplomacy on both sides to solve. But other problems have arisen.

There was the failure of the appeal of the Birmingham Six – the Irishmen convicted of the killing of 21 people in the Birmingham pub bombings of 1974. To the majority in the Republic, this was yet another case of an increasingly anti-Irish slant to British justice.

Mrs Thatcher has said she neither could, nor would wish to, interfere in the workings of the British judicial system. Mr Haughey declared this unsatisfactory and said Anglo-Irish relations were at an impasse.

This week, two more bullocks have been let loose in the Irish cabbage patch. First came the news, apparently "leaked" by incensed Irish officials, that Britain was refusing to abide by new Irish rules on extradition. Under the terms of an Extradition Act passed by the Irish parliament late last year, requests for the extradition of suspects from Ireland either to the North or mainland must be vetted by the Irish Attorney General.

If he is not satisfied with the evidence, if for instance the British authorities merely wish to interrogate the suspect or force him to pay taxes, then the extradition request may be refused. The Irish feel this is an entirely legitimate procedure. Further, they point to what they feel is Britian's somewhat questionable record concerning the extradition of its own subjects.

Sir Patrick Mayhew, the British Attorney General, is seen by the Irish as principal antagonist. According to Irish officials he refuses to co-operate with the terms of the new Act: as a result four or five British extradition requests have been "filed away". On top of this has come the news that the British Government plans to make permanent the Prevention of Terrorism Act, introduced shortly after the 1974 Birmingham pub bombings.

Again, this has been seen as being an anti-Irish move. The leader of the Fine Gael opposition in Ireland, Mr Alan Dukes, described the move, particularly at this time, as "an unnecessary provocation." The Social Democratic and Labour Party MP, Mr Seamus Mallone, said making the prevention of Terrorism Act permanent would be blow for the nationalist community in the North and provide another boost to the paramilitaries.

The leader of the Irish Labour Party, Mr Dick Spring, said that Britain was again turning its back on its obligations under the terms of the Anglo-Irieh agreement. The main casualty in all this is not only the agreement but also the trust between London and Dublin so carefully built up.

Ultimately, it is felt in Dublin that the present difficulties make a solution in the North ever more distant. Mr Haughey has already hinted that co-operation on various levels, including security, cannot continue in the present atmosphere. "I thought our difficulties went back 400 years," said Mrs Thatcher after her Brussels meeting with Mr Haughey. "Now I've been told 700," she said. It looks as though probleme between Britain and Ireland are destined to continue for some time to come.

Ford strike likely to end with offer on pay and conditions

BY CHARLES LEADBEATER, LABOUR STAFF

LEADERS OF Ford's 32,500 manual workers last night agreed to recommend a two year pay deal worth at least 14 per cent and to call off the national strike which has shut the company's 21 UK plants for the last nine days.

The dispute has cost the company more than £140m in lost production.

Workers will vote on the package in secret ballots on Thursday morning to pave the way for a return to work next week.

The agreement was reached after Ford dropped its proposal for a three year deal and agreed that changes to working practices could not be imposed without agreement at plant level.

It also amended its original pay offer to provide a 7 per cent increase in 1988-89 in addition to a 7 per cent rise in 1987-88. It had offered 7 per cent in 1987-88 followed by a rise for 1988-89 of 2½ per cent plus the inflation rate.

It is understood the talks centred on three elements of the revised package:

- Union negotiators called fo an improvement in the compa ny's pay offer.
- They wanted firmer guara tees that changes to worki practices would not be impos despite lack of agreement plant level. It is thought company has insisted on reta ing its main working-pract proposal to create work tear
- The unions also want stronger commitments on t company's plans to impro manual workers' conditions a revise skilled workers' p structure.

Ford's plans to revise p structures and improve manu workers' terms and conditio had been based on spreadi the costs over three years.

Many union leaders will gree Ford's abandonment of a three-year offer as one of the most clear-cut union victories since the water workers' strike in 1983.

Executives from Ford's world headquarters near Detroit will hold talks today with TUC officials

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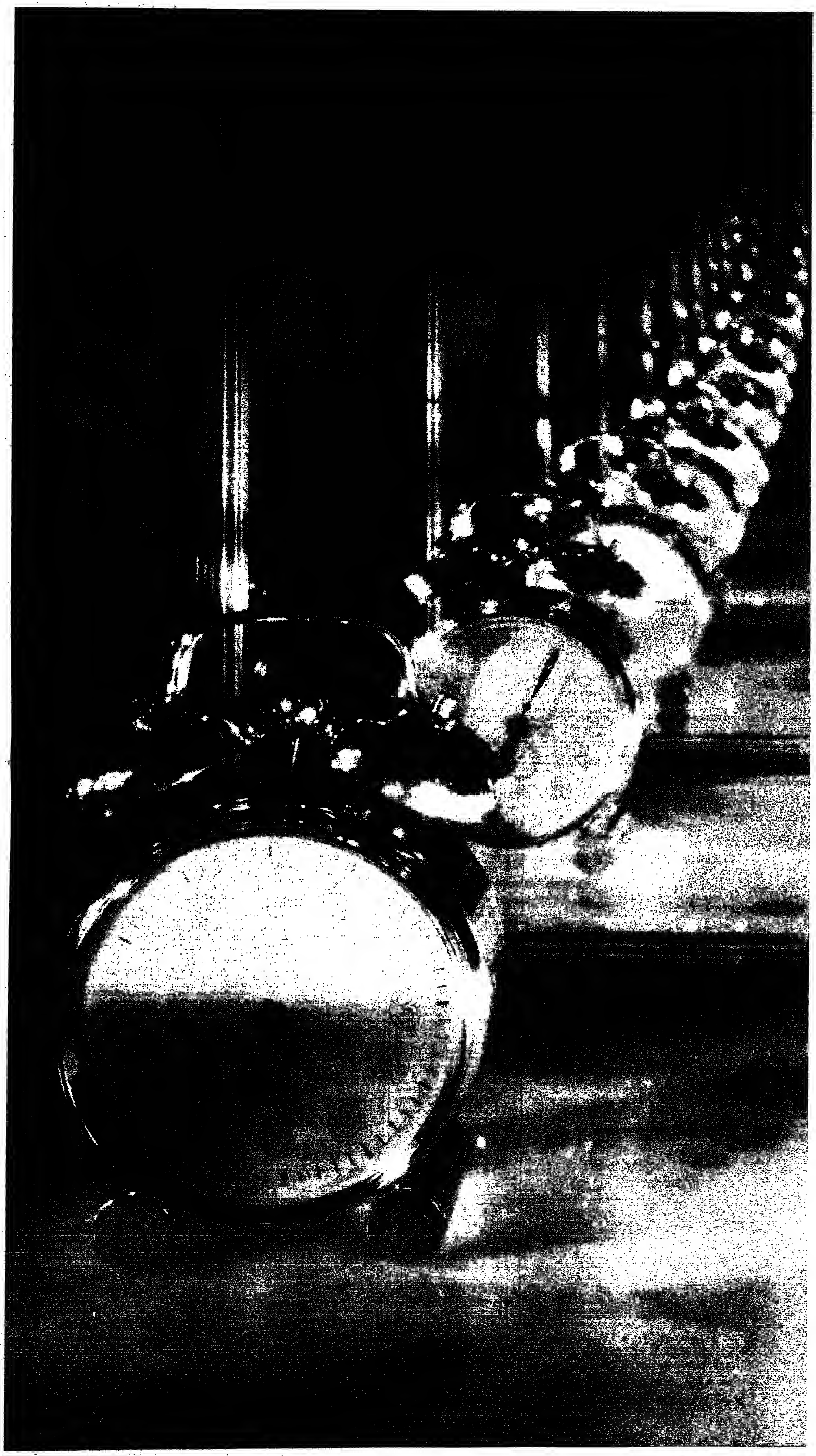

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UK NEWS

Britain 'need not' change tax rates for EC market

BY RICHARD WATERS

COMPLETION of a free internal market in Europe by the end of 1992 does not require the drastic changes to valued added tax rates and excise duties proposed by the European Commission, according to the Influential Institute for Fiscal Studies.

In an analysis published yesterday*, the IFS says that the Commission's plans for two rate bands for VAT should be replaced by simple floors, allowing members states to set higher rates if they wish.

It also says that countries which are geographically isolated from the rest of the Community, such as the UK, Ireland and Greece, could be allowed to levy indirect taxes below the floor levels without harm to other countries.

The IFS arguments add weight to the UK's bitter rejection of the VAT standardisation plan. The Government pledged during the general election that it would not levy VAT on children's clothes, fuel for heating and lighting, and food – all items which are on the Commission's hit list.

The Commission envisages two VAT rate bands: 4 to 9 per cent for certain basic goods and services and 14 to 20 per cent for all other goods. At present, VAT rates in the Community range from zero (applied to a wide range of goods in the UK accounting for 30 per cent of consumer spending) to 38 per cent (Italy's increased rate for luxury goods). Standard rates of VAT range from 12 per cent to 24 per cent.

Reducing the differences between countries would reduce the risk of distortions in trade when customs barriers between members states are lowered in 1992, Lord Cockfield, vice president of the Commission and the architect of the plans, told a House of Commons select committee earlier this week.

The IFS disagrees. It argues:

● Differences in indirect tax do not distort trade and, in particular, do not give unfair cost advantages to producers in low-tax countries, as has been claimed. This is because VAT rates are determined where goods are sold, not where they are produced.

● It is possible to operate a system to handle differences in tax rates at frontier checks, without the risk of extensive fraud and evasion.

● Cross-border shopping by individuals would be encouraged by different rates of indirect tax. But it is up to each country to choose a high rate if it wants, since it would be the only one to suffer from the decline in sales that would result. A minimum level of VAT and excise duty would be needed to prevent all countries being forced to lower their rates to the lowest common denominator.

However, countries such as the UK should be excused even the minimum rate. The IFS says: "The English Channel, and more subtle matters of culinary preference, are presumably the main reason why the French would not flock to the UK to buy zero-rated food, and the imposition of 4 per cent VAT on food in the UK would be unlikely to have much effect on this."

Lord Cockfield on Monday told a committee of MPs that Britain's resistance to the proposed standardisation of VAT rates across Europe could result in trade barriers being erected against it.

Fiscal Harmonisation: An analysis of the European Commission's proposals, IFS, 180/182, Tottenham Court Road, London, W1P 9LE. Price £6. (members: £3).

Alcohol tax reductions 'would hit Treasury'

By Richard Waters

LOWERING UK alcohol and tobacco duties to those of other EC countries would cost a huge amount and stimulate extra consumption, says the IFS.

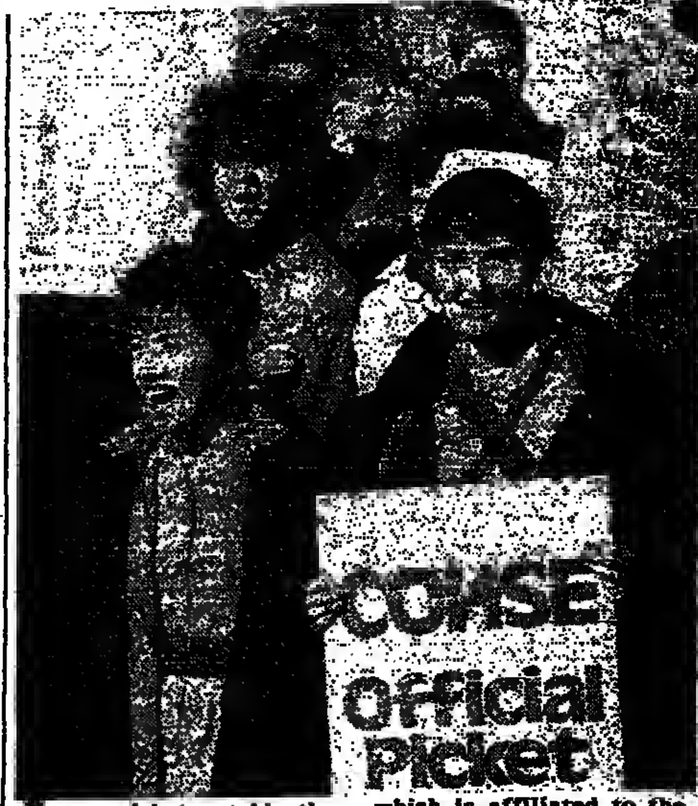
Alcohol consumption would increase by a third, due to a 90 per cent reduction in the duty on wine and a 75 per cent fall in duty on beer. This would cost the Exchequer nearly £2bn.

If the amount of alcohol consumed were to remain unchanged, the loss to the Treasury would be a massive £3.9bn, says the IFS.

Duty from cigarettes would fall by £700m, or £900m if consumption did not increase as prices fell.

These revenue losses would be more than countered by extra VAT levied by widening the tax base. Putting the minimum 4 per cent VAT on items like food and fuel would result in an extra £800m a year for the Treasury, after taking into account the excise losses.

Food would yield £1.5bn, fuel £600m, clothing £500m, and travel £100m.



Nurses picket outside the Maudesley Hospital in south London yesterday as health workers held their latest protest at the state of the National Health Service. Maudesley was one of a few hospitals hit by strikes. The day of action was organised by the Confederation of Health Service Employees (Cohse) which is affiliated to the Trades Union Congress. Cohse said 10 hospitals would be hit by a 24-hour walk-out, but few nurses actually failed to report for duty. Most staff on picket lines across London and the South East of England were nurses, porters and ancilliary workers on tea and lunch breaks.

Nixdorf to enlarge stake in Britain

BY NICK GARNETT

NIXDORF, the West German computer hardware and systems company yesterday announced its intention of taking a larger share of the UK market for computer integrated manufacturing.

The company said its UK operations had taken on 230 extra employees last year, between 50 and 100 of whom were hired to improve service to manufacturers.

Nixdorf claims to have installed systems for manufacturing in some 100 companies in the UK, but these are relatively small operations.

Its sales for manufacturing applications last year in the UK amounted only to about £3m but it is aiming to raise this to £10m this year.

This market is dominated by US manufacturers, in particular Digital Equipment and IBM. The total UK market for computers in manufacturing and for integration with other company departments is estimated at £600m to £1bn.

Mr Chris Stephenson, UK marketing manager, denied that Nixdorf was coming too late into the British manufacturing market.

Large companies were still uncommitted to hardware suppliers he said. "There are a lot of sites out there that are not as advanced as they might be." Nixdorf is a significant supplier of equipment for West German manufacturing companies, including Volkswagen, and has a computer integrated manufacturing centre at Stuttgart.

Mr Stephenson said that Nixdorf was looking at the possibility of setting up a CIM centre in Britain.

Hurricane havoc cost insurers over £860m

By Eric Short

THE HURRICANE which struck southern Britain on October 19 last year cost insurance companies in the UK a total of £860m in claims so far, according to the latest estimates from the Association of British Insurers.

Claims on damage to property are estimated at £835m, with the the cost of dsmage to domestic property accounting for over £600m of this total. Claims costs arising from damage to motor vehicles amounted to £25m.

This is by far the largest amount paid out by UK insurance compaoies after ooe weather catastrophe – the highest previous pay-out being £327m – a result of the prolonged "arctic" weather which affected Britain in the winter of 1981-82.

However, the ABI estimates that the total cost of damage caused by the hurricane could be well over £1bn. About one householder in four does not insure the contents of his house.

The extent of the impact of the hurricane is illustrated by the 1.2m claims so far received by insurance companies, who report that more are yet to come.

The ABI estimates that in southern England, around one household in six suffered damage as a result of the hurricane. About three-quarters of household claims related to the buildings – damaged by falling trees, or with displaced tiles and collapsed walls.

The insurance companies have aettled over 785,000 claims – nearly two-thirds of the total, while for many of the outstanding claims, the compsnies have made interim payments or are awaiting the final account.

The major insurance groups will be reporting their 1987 resolts over the next few weeks, starting with Royal Insurance reporting on February 25. Many companies are therefore reluctant to give their own hurricane claim coats ahead of the results.

Sun Alliance Group, the largest insurer of house buildings in the UK, could be paying out around £120m, while Royal Insurance, the secood largest, admits to costs of £105m.

In contrast, the cost to Prudential Corporation, the largest house cootents insurer in the UK, is only £35m gross, showing that damage to contents was far less severe.

Many insurance companies reinsure claim costs above a certain limit. But last year, neither Sun Alliance or Royal carried reinsurance on the domestic property portfolio.

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MANAGEMENT

THE FINANCIAL TIMES is undertaking a major survey which should shed new light on the effective use of information technology (IT) for competitive advantage.

Over the next few days, some 1,000 chief executive officers from a randomly chosen selection of UK companies will be invited to complete anonymously a postal questionnaire designed to examine their opinions of the use of information technology in their own organisations.

For the purposes of the survey, IT is defined as computers and computer-related technologies such as electronic communications systems and factory and office automation.

The purpose is to discover whether CEOs are, on balance, satisfied that their companies are using IT effectively, how they assess its effectiveness and whether they see it as a principal component of corporate strategy.

A number of business surveys over the past few years have asked similar questions but have generally been addressed to data processing managers or management services directors.

The term "information technology" is only about 10 years old. It was born out of a realisation that microelectronic technology, through its low cost, could make possible new ways of doing business.

For the first time, computer technology could be used directly to help executives and professionals in areas such as marketing, advertising and planning, as well as design and manufacturing. But it has proved difficult to justify investment in these new uses of computer power in cost terms.

The advent of IT marked the "third phase" of the business computer revolution. The first, which lasted roughly from 1950 to 1970, was characterised by the installation of mainframe computers in data centres – chiefly intended to carry out "back office" functions, ledgers, payroll and so on. It was comparatively easy to justify the considerable investment in terms of the heavy labour costs saved.

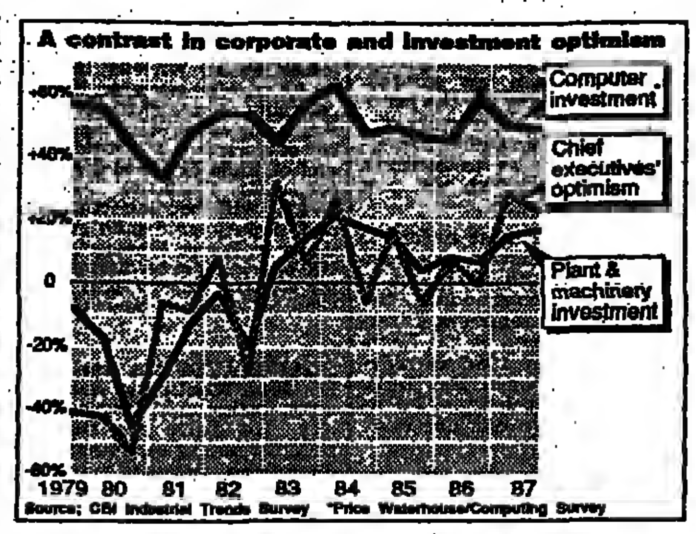
In the 1970s, minicomputers, cheaper than mainframes but capable of a substantial workload, made it possible for individual subsidiaries, branches, even departments to have its own machine.

This second phase of "decentralised" computing developed in parallel with mainframe computing through the 1970s. It was

Information technology

Effectiveness put to the test

Alan Cane introduces a Financial Times survey



Source: CBI Industrial Trends Survey *Price Waterhouse/Computing Survey

about as important to CEOs and to the board of directors as the plumbing or the lighting – a vital service without which the business would soon grind to a halt, but something best left to the technicians. It was not seen as an essential ingredient of company strategy.

That began to change with the coming of the microcomputer, and more important, with microcomputers connected together in communicating networks. This made possible the information technologists' dream of "distributed computing".

This concept, which is beginning to dominate systems thinking today, implies a company-wide network of machines of various sizes which make computer power available to the user without the need for any knowledge of the way the network is structured or how it operates.

The computer system, in fact, integrates and controls the various elements of the business.

Companies in the US and UK have been developing such systems – which promise to place information as a resource at the centre of the organisation's strategic thinking – for several years now with only patchy success. A major problem is that it is difficult to reconcile such systems with traditional cost accounting practices.

Many senior managers are unhappy with what they see as the lack of benefit from information technology, and as a result have held back from further investment.

"Office automation" have become dirty words in the US; information systems managers have begun to accept that their budgets will no longer grow automatically year on year.

Studies show that few are able to estimate the effect of investment on IT on their bottom line. Professor J.L. McKenney, head of Harvard business school's office systems research division, recently said that most did no cost justification at all.

Surveys in the UK indicate similar shortcomings. Consultants Peat Marwick McLintock recently reported that many large companies have difficulty in identifying or measuring the benefits of their managers' and professionals' use of computers.

The Kobler Unit at Imperial College, London University, one of the few academic units in the UK studying the business benefits of IT, has results suggesting that misguided investment in IT can do a business more harm than good.

Professor Igor Aleksander, head of the unit, suggests IT is like a telescope; it magnifies both advantages and disadvantages.

Management consultant Price Waterhouse has been collecting evidence to show that many manufacturing companies are still using outdated cost accounting techniques to measure the benefits of advanced manufacturing techniques.

Nevertheless, it is becoming clear that there are benefits to be gained from information technology, even if neither business-people nor academics are yet sure how to measure them.

Butler Cox, the London-based consultancy, has drawn up a list of some 100 examples of companies which have exploited IT to commercial advantage.

It is against this background that the Financial Times survey has been planned. It has been designed by Dr Kit Grindley, a consultant with Price Waterhouse. To ensure anonymity and security, Price Waterhouse has agreed to carry out computer analysis of the results.

Grindley has, over the past decade, designed and analysed a quarterly survey of the computer industry, the results of which are published in the newspaper Computing.

Addressed to data processing managers in about 1,000 UK organisations of a wide variety of sizes and industrial categories, it has proved remarkably accurate in detecting significant trends in the industry: for example, the point at which data processing managers realised they would never be able to recruit sufficient staff and put meeting project deadlines at the top of their list of anxieties.

It also accurately predicted the point at which management decided to rein in spending on data processing as the benefits of further investment became less clear.

This survey is now being repeated in the US, Australia and Japan. Grindley has used his experience in designing these questionnaires when planning those for the Financial Times survey.

Chief executives and managing directors who would like to contribute to the survey but who have not received a questionnaire may write for a copy to: Financial Times Chief Executives Computer Opinion Survey, Price Waterhouse, 1 London Bridge, London SE1 9QL.

Oiling wheels at the double

A married couple tell Michael Skapinker how Esso's equal opportunities policy affects their jobs


Robin Schneider and Rachael Ross: advocating career breaks

WHEN RACHAEL ROSS got married last year, she told managers and union representatives at Esso's Fawley refinery that they should continue to call her by her maiden name.

The union representatives, she recalls, had no trouble accepting her request; the managers found it puzzling.

As an industrial relations adviser at Fawley, Ross spends a lot of time talking to male shop stewards. If any of them object to dealing with a woman, they haven't told her.

Ross, who is 25, is the first woman to hold her position. Her tasks include advising management on industrial relations and liaising with representatives of the blue collar workforce.

Her husband, Robin Schneider, 28, hopes to see more women taking up positions of responsibility at Esso. He too worked at Fawley, where the two met. He is now based in London, as Esso UK's head of staff relations. One of his main areas of responsibility is the implementation of the company's equal opportunities programme.

Schneider and Ross occasionally appear on the same platform to talk about equal opportunities at Esso.

Ross joined Esso in 1984, after graduating from Cambridge with a degree in modern languages. What was it that attracted a woman with an arts background to a company in an overwhelmingly male industry?

"While I was studying languages I don't think I considered industry as a possible option. One just didn't meet people in industry. I guess it was when I made the decision to go into personnel that I realised that there were a number of different options. I began to feel that industry did have a lot to offer and would perhaps be more exciting than, say, retailing.

"There was certainly a part of me that said, 'it's going to be harder in industry than in retailing where there are many more women'. But I had been to a boys' boarding school in the sixth form, so I was used to a male-dominated situation."

After a year in Esso's London offices, she was transferred to Fawley to work in the recruitment section. The job entailed contact mostly with "engineers, so there is a certain culture which is similar to the culture of a boys'

INSIDE EDGE

boarding school. There aren't pillow fights or anything like that, but you are aware of the culture."

Ross spent two years working in the recruitment and compensation area before moving to an industrial relations job at Fawley. She thinks that being a woman helps her to do her job more effectively.

"As an employee relations person you are expected to be a bit different from the management team and from the engineers. You are providing independent advice, so in a way being different didn't matter because it was part of the role."

She adds that "one example of where I found being female a real advantage was when we had a dispute. We had a group of managers and union guys in my office and we resolved it. One of the union guys said it had helped that I was a woman because they didn't let rip. Usually it's effing and blinding, but because I was there they tried to keep things calmer."

Schneider welcomes the different approach that women bring to their work. He says that this is a major difference between equal opportunity programmes in Britain and the United States.

In the US, he says, corporations have recruited large numbers of women managers. But they are expected to behave like their male colleagues. They are not given any special dispensation when they have children, for example.

Esso UK, by contrast, has just instituted a system of career breaks, under which women who leave to have children are encouraged to maintain their links with the company and eventually return to full-time work.

Men, too, can take advantage of career breaks. They are available to all employees who need them for family reasons, whether to look after elderly relatives or young children.

Esso UK's drive to recruit women has had some success. The proportion of women in the company's graduate intake has increased from 13 per cent in 1984 to 35 per cent in 1987. But because the company, which has 5,000 employees, recruits less than 100 graduates a year, the proportion of male managers is still overwhelming.

Schneider concedes that far less progress has been made in the recruitment of ethnic minorities. Esso, he says, still suffers from the "white chill factor"; there are so few blacks and Asians in the organisation that potential recruits from ethnic minorities might be reluctant to apply.

The company is conducting a survey to determine the ethnic origin of all its employees in an attempt to find out how many blacks and Asians it does employ. Schneider says the survey has been welcomed by union representatives.

"It's been supported by shop stewards. When Rachael had a meeting with the maintenance negotiating committee, they all filled in the survey at the meeting to show their support," he says.

The survey has been backed up by awareness-raising seminars, attended by all Esso employees. The seminars, he says, are not an attempt to "transplant ideas into people. It's not a brain transplant job. We give them some statistics. We say, 'this is what we see as the problem and this is what we're trying to do'. Most people respond positively. At the end of the day you can't impose equality of opportunity from the top down. If people don't want it to happen it won't happen."

Having said that, Schneider regards support from the top as crucial. The Esso board gave its approval to an equal opportunities policy in 1984. "Unless you've got the board behind you. Initially (equal opportunities) will be seen as peripheral to people's jobs and anything that's peripheral won't get done unless it's got support from the top.

"The fundamental reason that the board is behind it is they see we're running into a skills shortage in this country." Unless you extend your search for talent to the entire population, Schneider says, "you're shooting yourself in the foot."

International Appointments

FT LAW REPORTS

No damages for retirement discrimination

DUKE v GEC RELIANCE SYSTEMS LTD
House of Lords
(Lord Keith of Kinkel, Lord Brandon of Oakbrook, Lord Templeman, Lord Oliver of Aylmerton and Lord Goff of Chieveley):
February 11 1988

A WOMAN who suffers discrimination in that she is compelled to retire at an earlier age than her male colleagues is not entitled to damages if her dismissal took place before the introduction of the statutory tort of unlawful discrimination in 1986 because, until then, discriminatory retirement ages were not unlawful by English legislation, and the EC law requirement of equality did not have direct effect and was unenforceable as between individuals.

The House of Lords so held when dismissing an appeal by Mrs Ethel Duke from a Court of Appeal decision that she was not entitled to damages against her employer, GEC Reliance Systems Ltd, in respect of her enforced retirement.

LORD TEMPLEMAN said that Mrs Duke was employed by Reliance. Its policy was to enforce retirement of employees when they reached the pensionable age of 60 in the case of women, and 65 in the case of men.

It ceased to employ Mrs Duke after she attained 60. Had she been a man her employment would not have been discontinued before 65.

Mrs Duke claimed she was the victim of discrimination on the grounds of sex, and that she was entitled to damages under the Sex Discrimination Act 1975 because the discriminatory retirement was unlawful by section 6(2) of the Act, which prohibited discrimination against a woman "by dismissing her".

Reliance admitted discrimination by dismissal, but denied it was unlawful because, by section 6(4) of the Act, section 6(2) did not "apply to provision in relation to death or retirement".

If the dismissal was an unlawful act of discrimination, by sections 63-66 of the Act [as amended by the Sex Discrimination Act 1986] Mrs Duke was entitled to damages for tort.

Mrs Duke's complaint to an industrial tribunal was dismissed on the ground that section 6(4) preserved the right of an employer to operate discriminatory ages of retirement. The decision was upheld by the Employment Appeal Tribunal and the Court of Appeal. Mrs Duke now appealed.

On February 9 1975 the Council of Ministers of the European Community adopted an Equal Treatment Directive (76/207/EEC), the purpose of which was to put into effect the principle of equal treatment in employment and social security. It provided that equal treatment with regard to working conditions, including the conditions governing dismissal, meant that "men and women shall be guaranteed the same conditions without discrimination on grounds of sex."

The time limit for compliance with the Directive expired on August 12 1978. Before that date the UK took no steps to repeal or amend section 6(1)(A) of the Equal Pay Act 1970 or section 6(4) of the Sex Discrimination Act 1975, both of which made discriminatory retirement ages lawful. The 1970 Act and the 1975 Act together formed a single code dealing with discrimination against women in employment.

On December 19 1978 the EC Council adopted a Social Security Directive (79/7/EEC), which obliged member states to put into effect equal treatment for social security within six years, but which did not require the abrogation of British statutory retirement pension schemes for women at 60 and men at 65.

The UK government considered that the Equal Treatment Directive did not prohibit discriminatory ages of retirement. Its argument in *Marshall [1986] QB 401,420* was that the Social Security Directive allowed discrimination in the determination of pension age, and that pensionable ages and retirement ages ran in harness.

In *Marshall* the European Court decided that dismissal of a woman solely because she had attained the qualifying age for state pension "which age is different under national legislation for men and for women", constituted discrimination on grounds of sex, contrary to the Equal Treatment Directive.

Pursuant to its obligations under the Treaty to give effect to EC legislation as construed by the European Court, and following *Marshall*, the UK enacted the Sex Discrimination Act 1986. It amended section 6(1A) of the 1970 Act, and section 6(4) of the 1975 Act, so as to render unlawful discriminatory retirement ages as between men and women. The 1986 Act was not retrospective, and did not avail Mrs Duke.

Marshall decided that the Equal Treatment Directive required member states to prohibit discrimination with regard to retirement or dismissal in accordance with an employer's policy. Mrs Duke could therefore show that her forcible retirement before reaching 65 was discrimination contrary to the requirements of the Equal Treatment Directive.

But *Marshall* also decided that the Equal Treatment Directive did not possess direct effect as between individuals [see article 189 EC Treaty – "a directive shall be binding...upon each member state"]. Mrs Duke therefore could not claim damages against Reliance simply for breach of the Directive.

Nevertheless it was submitted that she was entitled to damages because EC law required the 1970 Act and the 1975 Act to be construed in a manner which gave effect to the 1976 Directive as construed by the European Court in *Marshall*.

A British court would always be willing and anxious to conclude that UK law was consistent with EC law. But the construction of a British Act of Parliament was a matter of judgment to be determined by British courts, and to be derived from the language of the legislation considered in the light of circumstances prevailing at the date of the enactment.

In *Garland [1983] 2 AC 751, 770-771* Lord Diplock said that it was a principle of construction that the words of a statute passed after the Treaty were to be construed, "if they are reasonably capable of bearing such a meaning", as if they were intended to carry out the UK's EC law obligation.

The 1975 Act was not intended to give effect to the Equal Treatment Directive as subsequently construed in *Marshall*, and the words of section 6(4) were not reasonably capable of being limited to the meaning ascribed to them by Mrs Duke. They were intended to preserve discriminatory retirement ages.

The Equal Treatment Directive did not specify the nature of the remedies which the member state must afford to a victim of discrimination. In *Von Colson [1984] ECR 1891* the European Court ruled that the state was free to choose solutions suitable for achieving its object, but if it chose compensation, the compensation must be adequate.

Von Colson was no authority for the proposition that the court was bound to invent a law of adequate compensation if no such law existed, and no authority for the proposition that a court must distort the meaning of a domestic statute so as to conform with EC law which was not directly applicable.

It would be most unfair to Reliance to distort the construction of the 1975 Act in order to accommodate the 1976 Equal Treatment Directive as construed by the European Court in 1986 in *Marshall*. As between Mrs Duke and Reliance, the Equal Treatment Directive did not have direct effect.

The appeal was dismissed. Their Lordships agreed.

For Mrs Duke: Michael Beloff QC and Judith Beale (Bindman & Partners)
For Reliance: Eldred Tabachnik QC and Patrick Elias (Barlow Lyde & Gilbert)

Rachel Davies
Barrister

APPOINTMENTS

Top board posts at Foster Wheeler

Mr William C. Chatman has been appointed chairman of FOSTER WHEELER. He has been chief executive and managing director of the group since 1986. He joined the group in 1952 as a process design engineer. Mr Chatman succeeds Mr D.V. Newbold, chairman since 1979, who is retiring. Mr Timothy M. Evans has been appointed deputy chairman. He joined Foster Wheeler in 1966 as commercial manager, became company secretary in 1971 and a director in 1973. He is a director of a number of subsidiaries, and of Rolls Royce and Associates. Mr Chatman and Mr Evans will become chairman and deputy chairman respectively in Foster Wheeler's main UK operating subsidiaries, Foster Wheeler Energy, and Foster Wheeler Power Products.

*

BLANCHARDS has appointed Ms Jean Woolley as non-executive chairman of Moyses Stevens. Ms Julie MacDougall becomes managing director, Ms Jo Avison, sales and marketing director, and Ms Heather Hollingshead as administration director.

*

THE PA CONSULTING GROUP has appointed Mr Michael Moss as principal consultant for the banking, insurance and finance sector. He director of bank consulting at Glendinning.

*

Mr David Brearley has joined STANDARD CHARTERED BANK as general manager, information systems. He was head of group technology, Swiss Bank Corporation International, London.

*

EUROFI has appointed Mr John Goodman as sales director. He was chief executive of the Institute of Sales and Marketing. Mr Ian Armstrong and Mr Malcolm Troup have been appointed associate directors.

*

Mr Peter J. van Berckel, who was managing director of Cadbury Schweppes Export, has been appointed director-general of THE SUGAR BUREAU.

*

Mr John D. Macomber has been appointed a non-executive director of PILKINGTON. He is chairman of J.D. Macomber, a private investment and advisory firm based in New York. He is a director of a number of companies in Europe and the US, and was chairman and chief executive officer of the Celanese Corporation until its acquisition by Hoechst last year.

CIM INTERNATIONAL has appointed Mr John M.P. Dibben as a non-executive director. He is chairman of Smallbone Kitchens and chief executive of West Industries.

*

HIGHLANDS INSURANCE COMPANY (U.K.), a Halliburton company, has appointed Mr I. Clarke as an alternate director for Mr H.G. Dahle (US); Mr C.S. Henderson as alternate for Mr D.E. Walker (US); Mr N.A.M. Malim as alternate for Mr J.D. Morgan (general manager); and Mr G.D. Trowbridge as alternate for Mr R.M. Stephens (US). Mr K. Gray becomes an assistant director; Mr T.N. Sparkes is made non-marine underwriting manager, and Mr T. Mason deputy non-marine underwriter.

*

Frizzell UK, commercial insurance broking arm of THE FRIZZELL GROUP, has made the following appointments at Frizzell Bolton Corder - Mr Ken Mason (divisional director); Mr Ken Kay (divisional director and regional managing director); Mr Tony Barnett, Mr Bill Lowes, Mr Terry Wheeler (regional directors); and Mr Paul Skinner (broking director). Mr Paul Branden, a director of L.F. Risk Management, becomes a divisional director of Frizzell Contractors Insurance Brokers. Mr David Walker, managing director of Frizzell Bolton Life & Employee Benefits, becomes a director of Frizzell UK. Mr Ken Davidson, managing director of Frizzell UK, becomes chairman of Frizzell Bolton Life & Employee Benefits.

Board posts at County NatWest

COUNTY NATWEST has appointed Mr Tony Baker and Mr Steven Crow as directors. Mr Baker joins from the Department of Transport where he managed the privatisation of BAA. He will be working on the strategic development of County NatWest's international equities securities business. Mr Crow has been appointed head of eurobond trading and joins from E.F. Hutton where he was senior vice president and director. County NatWest Securities, incorporating Wood Mackenzie & Co., has appointed Mr Geoff Green and Mr Colin Mills as joint heads of market making from March 31. They will be taking over from Mr Mark Potashnick, who leaves on that date.

Dangers of ravening for rapid results

BY MICHAEL DIXON

ARE YOU hungry for results?

Unless you are, or can convincingly pretend to be at least, you could hardly expect much of a welcome on today's executive jobs market. More and more company chiefs seem to view a raging appetite for rapid success as a precondition of high-rank employment, and sharpen their staff's hunger by rewarding visible achievement and punishing the opposite with gusto.

In these days of growing competition and uncertainty, there can of course be no argument for feather-bedding any of the folk in a business's key positions. But given that numerous company chiefs apparently also want their senior staff to respond to the competitive and uncertain conditions by being innovative, if not downright creative, there is evidence that the policy of promoting results-hunger might well be counter-productive.

I have just come across the evidence in a comprehensive guide to what is currently known about motivation*, written by Douglas Mook, the Professor of Psychology at the University of Virginia in the United States. Among many other things, the book cites a particular kind of experiment with the effects of hunger on animals, particularly rats, which regularly prodnces the same result no matter how often the experiment is repeated.

All that is needed to try it is two rats or whatever, a pair of mazes through which the creatures have been trained to run a complicated path to get to some food placed at the other end, and a less than overwhelming love of all animals. For one of the two has to be starved until it is ravenous. The second must be in a condition where, although interested in taking action to obtain another meal, it is far from desperate to do so.

You stick each rat at the end of the maze from which it customarily starts on its well known complicated path. Some tempting food is placed at the other. But you do not just leave it at that. Besides leaving open the devious routes which the animals have been trained to run, you in each case open up a direct path from the starting point to the place where the meal is waiting.

So what happens?

More often than not the voracious rat ignores the new short-cut and races round its familiar route to the banquet. Meanwhile the one which is at best somewhat peckish takes a look round, then toddles down the unfamiliar direct path and gets eating. The frequency with which the two react in those distinctive ways is still greater if the ravenous one has had more practice than the other at running the circuitous journey.

At which point, having described the said events, Douglas Mook makes one of his rare descents into jargon. He says the findings suggest that the two animals' approaches to the same goal-achieving task are different.

The voracious and more grooved-in one's approach could be called "satisficing". All it looks for is a way of reaching the goal that it knows from experience is satisfactory. On the other hand, the approach of the more relaxed and less rehearsed animal could be termed "maximising". What it looks for is not just any old route that will do, but the most productive one.

"Is there a principle here – moderately motivated creatures maximise, desperate creatures satisfice?," the professor asks.

Unfortunately, as far as I could see, his book did not provide an answer. What's more it did not strike me as safe to assume that what animals such as rats do in any particolar case, will also be done in similar conditions by executives let alone ordinary mortal beings. So I telephoned the author and asked if his suggested principle had been found to apply to people.

His answer was yes. The same sorts of behaviour had been observed even in specific studies of more and less results-hungry managers.

The evidence would therefore seem fairly clear. A policy of making workers voracious for rapid success may work well when the goal which it will best benefit the company to achieve is clear, and the best way of attaining it is already known for sure. But if the current objectives and means of pursing them are not necessarily the best available, so that an innovative approach to the job could pay dividends, a policy of applying at most moderate motivational presssue would probably be more productive.

Douglas Mook went on to say that nobody has yet defined the precise psychological reason for the distinctive patterns of behaviour in the different sets of circumstances.

One possible explanation might lie in a theory the Jobs column had encountered before which suggests that motivation is like tension. For example, it is generally recognised that just as a certain degree of tension most exist in people if they are to move aboot at all, they do not throw themselves into a task until they have built up a sufficient amount of motivation.

What is less recognised is that, by the same token, it must be possible to have too much of the stuff. In the same way as an over-supply of tension can result in stress and a loss of full alertness and efficiency, so can a surplus of motivation.

The professor replied that, while most psychologists would agree that it is possible for people's effectiveness to decline under an overload of incentive, the known evidence would not support the belief that motivation was much the same thing as physical tension. So the psychologists' search for a serviceable reason still goes on.

Fortunately, those of us who are not in the head-shrinking profession have perhaps no need of a psychological explanation. The animals which found and used the short-cut delayed acting until they had observed what was happening in the world about them. It would surely suffice to say that the reason they took the look was that, not being desperate to eat, they had time to do so.

Hence all that may be needed to enable managers to maximise instead of just satisficing, is to allow them sufficient time free from results-pursuing action to observe what's going on around and think about it.

After all, there is nothing new about the idea that we are likely to act more wisely if we have space for pure reflection beforehand. Otherwise, as I heard an eminent scientist say not long ago: "Two years hard graft in a laboratory can often save a couple of hours quiet reading in a library."

City costs

WHICH is the most expensive city in the world to visit? The Jobs column's guess is that pretty well everybody would instantly answer "Tokyo". If so, they would be right according to the latest ranking of food and accommodation costs compiled by the Employment Conditions Abroad consultancy.

Before giving the ranking, I will point out that ECA's full report on expensiveness covers far more cities than the mere two dozen I have room for. Anyone wanting more detailed information should contact Barry Rodin at 15 Britten Street, London SW3 3TY; tel. 01-351 7151, telex 298751

The sole measure of costs to be used here is the total daily rate, which represents the overall expenses of a 24-hour stay by a business visitor using a four-star hotel, eating in good class restaurants and travelling about by taxi. The costs are shown in sterling at the exchange rates prevailing on January 11.

1.– Tokyo £186
2.– Oslo £165
3.– Copenhagen £162
4.– Stockholm £156
5.– Paris £154
6.– Geneva £150
7.– Amsterdam £142
8.– London £141
9.– Helsinki £137
10.– Milan £137
11.– Frankfurt £133
12.– Brussels £130
13.– Abidjan £130
14.– New York £130
15.– Khartoum £128
15.– Baghdad £121
17.– Vienna £118
18.– Douala £118
19.– Taipei £117
20.– Luxembourg (city) £113
21.– Dublin £112
22.– Kuwait (city) £108
23.– Port Moresby £108
24.– Beijing £101

For the benefit of any reader whose geography – like mine – is shaky, Abidjan is in the Cote d'Ivoire, Douala in Cameroun, and Taipei in Taiwan.

* *Motivation, the organisation of action. W.W. Norton, New York and London.*

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Television/Christopher Dunkley

Give a chap a look in

Saddest programme of the week was *My Mama Done Told Me* in which the beautifully erotic dancing of Lynn Seymour and the poignant singing of women such as Edith Piaf and Nina Simone was used to punctuate umpteen stories of women being jilted. They told of their experiences in their own words, speaking directly to camera, and always sounding spontaneous and fresh, as though thinking their way through the pain of their lives for the first time: a considerable achievement in direction and editing. The whole programme served to bear out the belief that whereas male sexual arousal depends most often upon the senses (sight, touch, smell, scent) female sexual arousal is more often emotional. Mills and Boon paperbacks, mentioned in the programme, may play much the same role for some women that Penthouse plays for some men.

The Guardian's Nancy Banks-Smith declared of the women "it was remarkable how consistent their experience was," but it was surely not: they had been carefully selected to achieve precisely that consistency. The question is: why? Was everybody connected with the programme so completely taken in by the Great Feminist Lie that they actually believe women never walk out on men? Do they imagine that the male halves of all these partnerships would tell the same stories as the female halves? Do men never suffer in heterosexual relationships? Are they never the injured parties? Do the people running Channel 4 imagine that the other three channels are so jammed with programmes about the perfidy of women that they have to provide the counterbalance? If not, why do they commission this sort of one-sided diatribe?

Above all, since feminism, with all its myths, exaggerations and special pleading, is the orthodoxy of the modern mass media, is it not time that Channel 4 began to do its statutory duty and supply the alternative? We have spent 35 years under a female sovereign, nine years under the thumb of a female prime minister, and centuries under the social system of a middle class matriarchy (whose younger members have hit with such brilliant success upon the Big Lie of feminism as a way of extending their hegemony still further). It is surely time Channel 4 did something about it.

How about a current affairs series made exclusively by men for men covering only men's interests? A ridiculous suggestion, of course, but Channel 4 is supposed to change the climate, not reinforce it.

*

Now that Parliament has voted to "experiment" with television coverage there will, of course, be arguments about editorial control, and rightly so: the precise form of coverage to be allowed is still problematical. But two predictions can be made with a degree of certainty. First, the cameras once in will not be sent away again, any more than they have been from any other parliament; and second, all those decades of passionate arguments about "fundamental changes in the character of the House" will be forgotten within weeks of the first day's coverage. Indeed, the whole affair will seem like a nine-day wonder and, if we think about it at all, we shall smile at all the fuss and marvel at how television news ever managed without cameras in the Commons.

*

Newsnight used to shine like a good deed in a naughty world. However disappointing the rest of the evening's television, there was always *Newsnight* to look forward to: a programme which assumed its audience was reasonably well informed and moderately intelligent. For anybody interested in current affairs – who read this newspaper, and the broadsheet Sundays, and perhaps New Society or The Economist or Spectator – *Newsnight* served the invaluable function of pulling together the most important aspects of the day's news late every evening. The three or four most significant items would be treated at some length, and there was a good leavening of the arts and humanities.

Now you switch to *Newsnight* with foreboding, expecting to be treated like a slow Poly student who has probably never heard of the Warsaw Pact or abstract expressionism. The change is yet another step down that dispiriting road marked "Populism:" dispiriting not because all programmes should be aimed at the well educated but because some of them should. *Newsnight* used to be but now, increasingly often, it sounds like a WEA lecture, with one subject spun out to inordinate length. Most disappointing of all is the disappearance of that assumption, long exemplified by this newspaper, that just as a properly rounded novelist will be interested in banking, so a properly rounded banker will be interested in novels.

*

Howard Schuman's adaptation of David Lodge's hilarious novel about the academic conference circuit, *Small World*, is proving to be a huge treat; a series that a television critic would watch for fun even if he was on holiday. As with so much of Granada's drama, one of the keys to its success is the casting which is spot on, from John Ratzenberger as Professor Zapp (who is to English literature what the Muddy Fox is to mountain bikes) to Leonie Mellinger as the gorgeous Angelica.

*

Having remarked last week that the production of III programmes about great writers by the South Bank Show unit suggested that today's producers were still in thrall to print, it is only fair to record that this week's *South Bank Show* was devoted to a lecture about television by Colin McCabe. Admittedly Mr McCabe came to public notice on the Eng. Lit. Crit. circuit, but the fact remains that the *South Bank Show* has done more than most arts series to further the idea that television itself is now a medium of considerable cultural significance.

McCabe spoke about the golden age of television in the sixties and claimed that "nobody then took television as a serious art form." Faithful readers of this page know that to be wrong. T.C.Worsley who wrote this column from 1964 to 1972 not only treated television as a serious art form but identified and celebrated successive milestones right through the golden age: *Z-Cars, Steptoe, The Wednesday Play*, the influence of Sydney Newman and Hugh Greene, *Cathy Come Home* – Worsley's shrewd eye spotted just about every significant development as it happened. Anyone who doubts this can check his collected columns in "The Ephemeral Art" which serves as a beacon to sixties television, and is as readable today as it was 18 years ago.

McCabe's comments on today's television could do with some of Worsley's directness and lucidity. Faced with the technological imperative driving towards increased numbers of channels, and a steady shift from broadcaster to viewer in the control of programme choice, McCabe tied himself in knots trying to create some rationale to justify the continuation of scarcity and thus the preservation of a tiny number of public service channels. His anxiety is precisely similar to that of Labour Party faithfuls who cannot bear the fact that, left to choose for themselves, millions of people every day deliberately select The Sun in preference to The Morning Star and even The Guardian.

*

It is amazing what you can learn from the sits. vac. columns. One of last week's advertisements revealed: "*On The Record*, BBC Television's new politics programme, is to be launched in the spring. . . We are looking for people who possess a deep interest in the politics of Britain and who have the capacity to see new and interesting ways of putting political analysis over to a television audience. Reporters for *On The Record* will also be part of the BBC's political unit - a large and important part of the BBC's news and current affairs service, allowing potential opportunities elsewhere in the BBC's political journalism. These are freelance engagements of not less than one year's duration, with fees upwards of £25k . . ."

Barry Lynch as Persse and Leonie Mellinger as Angelica in "Small World"

Handful of Stars/Bush

Martin Hoyle

The theatre above the Bush pub on Shepherds Bush Green took on the feel of a family reunion on Monday night. The Irish writer Billy Roche, with the novel *Tumbling Down* to his credit, now has his first play on view at this traditionally sharp-eyed showcase for new talent, and the local Hibernian population were delightedly present in force.

The writer's strengths lie in the absolutely real dialogue that spins out the varied rhythms of the trivia of small town Irish life, and in the ability to create well-rounded characters with the briefest of strokes in thumb-nail sketches. (It's always a good sign when the spectator is unsure whether these are actual actors or simply locals doing their thing, plucked from street, pub or probation centre.)

As yet his weakness lies in the absence of a strong plotline. The anecdote of tearaway Jimmy with his police record getting the boot from his bird and finally going beserk with a gun (though tragedy is avoided: he awaits the police, glumly tearful, in the pool-hall where he has wasted his days and nights as the play ends) is assumed rather than illustrated. The sporadic action portrays his friendship with young Tony (a touchingly fresh performance from Aidan Murphy), his contempt for the smug Conway, all pharisaic respectability, and his attraction to the factory girl Linda, played with a mixture of fragility and firmness by Dervla Kirwan. The climactic violence takes place off-stage and is reported by various characters; we take their narrative on trust, as we would in a novel or short story – and this might indeed make a good short story.

The set by Gordon Stewart and Andrew Wood combines a pool-table and juke-box with a framed picture of Christ with the Sacred Heart on almost palpably grubby walls. The boys peer wistfully through the stained glass panel of the upstage door marked for members only; beyond lie comfortable chairs and a full-size snooker table, signs of a symbolic manhood. Best mate Tony has had a one-night fling and now must "pay for his pleasure" with marriage. Friendly Stapler, the boxer, loses his fight and deserts his wife for an attractive hairdresser (referred to, confusingly, for Anglo-Saxon audiences, as "the quare one"), thus scandalising the town. With northern English rather than Wexford accents they would fit into those grey towns depicted by Stan Barstow or Alan Sillitoe. The limited horizons, the feeling of wasted human potential, are the same.

Gary O'Brien's Jimmy goes from restless rebel to bewildered criminal as convincingly as the author lets him. The play's virtue, under Robin Lefevre's direction, is to make us believe in the town outside, in Jimmy's long-suffering mother, in his helping hand decently offered to the injured policeman chasing him. Perhaps Mr Roche's next play will show us the pressures at work on his characters and not merely describe them.

Alastair Muir

Peter Caffrey, David Duffy and Gary O'Brien

Low Level Panic/Theatre Upstairs

Claire Armitstead

Three flatmates congregate in the sort of hospital green bathroom beloved of London's low-rent landlords. The implication of Clare McIntyre's short play is that the bathroom is the centre of their lives – a place where baths are wallowed in, spots are squeezed, weighing scales are boarded and the eternal rituals of cleansing and moisturising are pursued with a girlish intensity.

And "girlish" is the operative word for *Low Level Panic*, a joint presentation by the Women's Playhouse Trust and the Royal Court: there is no discernible maturity in the trio's enumeration of their problems and neither is there any sense of progression towards an insight that can reconcile their innermost pains and panics with the big bad world in which, when they are not bathing, they find themselves.

What emerges through Nancy Meckler's wryly humorous production is an exercise in the sort of low-level angst that abounds in the better television sitcoms. The writing is witty but too episodically structured, and the characters remain stuck at go, despite some eloquent and touching playing.

We meet Mary and Jo at bath-time comparing their fantasies with those of a porn magazine they have found abandoned in their dustbin. From this scene it emerges that Mary (Lorraine Brunning) is the introverted, sensitive type, while Jo (Caroline Quentin) wallows in hang-ups ranging from spots to excess weight, allowing self-revulsion to inspire a fantasy world full of perfect legs pegged by incredible hulks. Both are obsessed with the object and subject-play of the sexual politics that surround them.

The third and inevitably least interesting of the three is Celia (a sateen-voiced Alaine Hickmott), the sort who gatecrashes parties and comes home with the barons without any self-irony at all.

The characters are schematically defined through a series of short scenes in which Mary is terrifyingly attacked by a gang of youths as she makes her way home, Jo describes her ambitions to tan without strap marks, and all three kit themselves out for the disco. But it is incident ultimately without advancement, which leaves us where we began: in the bathroom, fantasising about men.

Alastair Muir

Caroline Quentin and Lorraine Brunning

Jommelli's Fetonte/La Scala, Milan

William Weaver

Even for many musicologists the 18th century composer Niccolò Jommelli is little more than a name, one of those musicians – like Hasse and Piccinni – who occupy space between Gluck and Mozart and are crushed by those giants. In the case of these composers there have been attempts at revival, but most of these "exhumations" as the Italians call them, all too graphically, have remained isolated events, without sequel. And this is likely to be the case with Jommelli's *Fetonte*, presented at La Scala recently with considerable care. Though the music flowed generously and coherently, thanks also to the alert and perceptive conducting of Hans Vonk, there was a kind of sameness about the score, an expectability; we seemed to be in the presence of a product of high quality, skilfully made, but calculated and, after all, routine. It was surely interesting to hear a Jommelli opera, but, given a choice, I wonder if many in the audience would want to hear a second.

Certainly, La Scala's casting gave the composer splendid support, for the most part. In the crucial part of Climene, Mariana Nicolescu sang with rich, round tone, clear enunciation, and breath-taking ease; even in passages of extreme agility she remained expressive as well as in tune. In the title-role, Luciana D'Intino portrayed a Hamlet-like Phaeton, also overcoming all the technical obstacles Jommelli had devised in her path. In smaller parts, Bernadette Manca di Nissa (Libia) and Sumi Jo (Fortuna) were admirably in command. Only the usually excellent Luciana Serra as Teti (Thetis) seemed in difficulty in her single, but fiendishly taxing scene; her coloratura was approximate and often shrill. Curtis Rayam was Orcane, King of Congo: imposing of figure and secure of voice; his sweet but full tenor was always musically employed. The other male in the cast, counter-tenor James Bowman, seemed unfortunately ill-at-ease with his music and he produced, for the most part, unpleasant, plangent sounds. He was not helped by a foolish costume.

Otherwise, the costumes – by Vera Marzot – were sumptuous, in keeping with an opera produced [in 1768] as a court spectacle [for Charles of Württemberg]. Mauro Pagano's set certainly made an impression: it consisted principally of twin, triple-storey constructions, resembling an abandoned factory, with a central space where the submarine realm of Thetis and other constructions could be inserted. But even the factory was mobile and, in the final act, could be shifted to create space for the monumental horses of Phaeton's fall.

For the first part of the opera, the staging of Luca Ronconi was, for him, remarkably discreet, even uncluttered; and the Thetis scene was truly magical. Unfortunately, the production was centrally conceived; that is to say, it was meant to be seen from a seat in the middle of a row. As I was seated to one side, I could not see the entrance of several important characters; and in the last act, where Ronconi really emptied his bag of tricks, I missed some important bits of spectacle. What I did manage to see: the appearance of an immense, white horse's head, then an equally immense pair of furious hooves, kicking in the air, before turning ominously still – was *effective* and *enjoyable*. With the individual singers Ronconi was less happy, forcing them into awkward positions and pointless antics (why did poor Phaeton, heavily costumed and wearing a mantle, have to climb first up, then down, a high ladder?).

*

After this elaborate confection, which will probably never be seen again once this Scala season ends, it was a relief to see, twenty-four hours later in the same house, Pier Luigi Pizzi's spare, tasteful production of Verdi's *I due Foscari*, designed over twenty years ago and still, after having been seen often on both sides of the Atlantic, fresh and potent. Fresh and potent, too, was the conducting of the veteran Gianandrea Gavazzeni in whose figure are linked many unforgettable Scala events (the Callas-Visconti *Anna Bolena*, for one). The three leading singers were unfamiliar, at least to me: baritone Eduard Tumagian, tenor Kristjan Johannsson, and soprano Maria Guleghina; but they all sang creditably. In the great final scene, Tumagian was suitably moving; and Guleghina's unruly, but powerful voice soared in the concerted numbers with Verdian force. After the sterile Jommelli, the vitality of the 30-year-old Verdi was life-giving.

New Board member for Covent Garden

Lord Armstrong has been appointed to the Board of the Royal Opera House, of which he was formerly Secretary, with effect from January 1988.

Pasquier Trio/St. John's

David Murray

Mozart's E-flat Divertimento, for string trio, K. 563, is both a perfect work and perfectly digestible by almost anybody. Yet it's rarely heard in public: few string trios perform regularly (their repertoire is too meagre), and few quartets want to send their second violin off to the pub while they devote half a concert to K. 563 – for its six movements play for more than three-quarters of an hour.

A BBC lunchtime concert supplied an ideal occasion yesterday, with amiable weather too; and the admirable Pasquier Trio knew how to satisfy the requirements of public scale while respecting the domestic tone of the music.

A trio as musically ambitious as Mozart's is much tougher to compose than a quartet: there aren't voices enough to supply easy filling, and thus exposed they all need real parts as much of the time as possible. With the Pasquier sound, warm and balanced, the Divertimento sounded transparent but never brittle – I even wondered whether their tiny, occasional imprecisions of ensemble might have been deliberate, for the work positively dwindles when severe togetherness blurs individual character, and this seasoned performance betokened the utmost familiarity with the score.

Of character there was plenty: a few beautiful interventions by the viola stood out, and some witty sudden fades in the cello's accompanying phrases. The "divertimento" manner was carefully preserved except in the dark Adagio, which had full dramatic gravity. There was time of course for all the repeats, of which any loss is painful except in a dim performance. The light grace of the playing was exceptional: not many Austro-German ensembles could allow this music to dance so easily without sacrificing points.

Saleroom/Antony Thorncroft

A winner in Bullock

Phillips sale of Old Master pictures yesterday will have done little to re-assure a nervous art market. It totalled £222,720, with 22 per cent unsold. Drawings did slightly better than oils but even the top prices were at the very low end of their estimates.

A pair of costal scenes by Johannes Jacob Hartmann made £14,200 while a Madonna and Child by a follower of Piero di Cosimo was on target at £11,000. A river scene by Laurens van der Vinne made £9,300.

Bonhams held a sale of dog pictures on Monday to co-incide with Crufts. Rather ironically the top price of £30,000 was paid for a painting of a cat admiring itself in a mirror. It was by the late 19th century artist Frank Paton and set an auction record for him. A scene of lots of dogs by William Trood did well at £17,600.

*

Two exhibitions devoted to the work of George Bullock, the early 19th century furniture maker are about to open. That at the Sudley Art Gallery in Liverpool, Bullock's home town, starts on Sunday; the other, based at the Mount Street, London, gallery of furniture dealers, H Blairman, follows on Tuesday. After 150 years of neglect Bullock's genius is at last acknowledged.

He had a meteoric career. He was only 35 when he died in 1818, perhaps by suicide, but his talents had attracted commissions from Sir Walter Scott, the Duke of Atholl, and most notably, from the British Government – to furnish Longwood House on St Helena, which was to be the home of the exiled Napoleon.

Items from St Helena are among the pieces on show at Blairmans, along with a table made for Abbotsford, the home of Scott, and an impressive cabinet commissioned by the Duke of Atholl. There is also a good selection of Bullock items of a more homely nature which were supplied to Great Tew and disposed of at the auction there last year. Fortunately many have found new homes in museums.

It is obvious that Bullock was a great innovator. Many of his designs look forward fifty years; others regenerate Elizabethan styles. He was particularly adept at the use of marble, and had his own quarry on Angelsey. It is a remarkable gesture for a contemporary furniture dealer to give over his shop for a loan exhibition but, in championing Bullock the museum and trade have obviously picked a winner.

Arts Guide

February 12-18

Theatre

LONDON

South Pacific (Prince of Wales). Average, traditional revival of the great Rodgers and Hammerstein musical, Gemma Craven failing to wash the baritonal Emile Belcourt out of her hair.

Shirley Valentine (Vaudeville). Pauline Collins in fine and funny monodrama by Willy Russell of liberation for a Liverpool housewife on Corfu. Shades of Ibsen's Nora and Beckett's Winnie, with jokes. (836 9987, CC 379 4444)

A Wholly Healthy Glasgow (Royal Court). Scabrously funny new play by Ian Heggie, structurally similar to David Mamet's American Buffalo, but set in a back-alley Glaswegian health club. No simultaneous translation provided. (730 1745).

The Phantom of the Opera (Her Majesty's). Spectacular emotionally nourishing new musical by Andrew Lloyd Webber emphasising the romance in Leroux's 1911 novel. Happens in a wonderful Paris Opera ambience designed by Maria Bjornson. Dave Willetts has succeeded Michael Crawford as the Phantom. (839 2244, CC379 6131/240 7200).

Follies (Shaftesbury). Stunning revival, directed by Mike Ockrent and designed by Maria Bjornson, of Sondheim's 1971 musical in which poisoned marriages nearly undermine an old burlesque reunion in a doomed theatre. Four new songs, improved book by James Goldman. Cast led by Dolores Gray, Julia McKenzie, Diana Rigg, Daniel Massey. All good (379 5399).

Serious Money (Wyndham's). Transfer from Royal Court of Caryl Churchill's slick City comedy for champagne-swilling yuppies: how the big bang led to class tumult and barrow-boy dealings on the Stock Exchange. Hot and livid, but new cast deemed less good. (836 3028, CC 379 6565).

A Small Family Business (Olivier). Brilliant new Alan Ayckbourn play about Britain on the fiddle in greedy times, selling out to foreigners and keeping it simultaneously in the family. A comedy thriller on the large scale. (928 2252).

NEW YORK

Fences (46th Street). August Wilson hit a home-run, this year's Pulitzer Prize, with James Earl Jones taking the powerful lead role of an old baseball player raising a family in an industrial city in the 1950s, trying to improve their lot but dogged by his own failings. (221 1211).

Cats (Winter Garden). Still a sellout, Trevor Nunn's production of T.S. Eliot's children's poetry set to trendy music is visually startling and choreographically feline, but classic only in the sense of a rather staid and over-blown idea of theatricality. (239 6262).

42nd Street (Majestic). An immodest celebration of the heyday of Broadway in the 1930s incorporates gems from the original film, like Shuffle Off To Buffalo, with the appropriately brash and leggy hoofing by a large chorus line. (977 9020).

A Chorus Line (Shubert) The longest-running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (239 6200).

Phantom of the Opera. The Majestic Theatre, stuffed with the Maria Bjornson gilded sets, rocks with Andrew Lloyd Webber's humming melodies in this mega transfer from London. But so hard are tickets to come by that travel companies are advertising packages to London with promises of tickets to see the show there. (239 6200).

Les Miserables (Broadway). Led by Colm Wilkinson repeating his West End role as Jean Valjean, the magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama, if not strict adherence to its original source. (239 6200).

Starlight Express (Gershwin). Those who saw the original at the Victoria in London will barely recognise its American incarnation; the skaters do not have to go round the whole theatre but do get good exercise in the spruced-up stage with new bridges and American scenery to distract from the hackneyed pop music and trumped-up silly plot. (586 6510).

Me and My Girl (Marquis). Even if the plot turns on ironic mimicry of Pygmalion, this is no classic, with forgettable songs and dated lead-ins in a stage full of characters. But it has proved to be a durable Broadway hit with its marvellous lead role for an agile, engaging and deft actor preferably British. (947 0033).

WASHINGTON

Enrico IV (Arena). Pirandello's mystery of the man who imagined himself as Emperor Henry IV of Germany is staged by Zelda Fichandler. (488 3300). Ends Feb 21

TOKYO

Bunraku (National Theatre) The puppet theatre's greatest writer, Chikamatsu, has been compared with Shakespeare. Of the three Chikamatsu masterpieces in this month's repertoire, one, The Love Suicides of Sonezaki, was first performed in May 1703, only a month after the events it depicts took place. It was the first Japanese play to portray the lives of ordinary people. The incredibly beautiful michiyuki scene, in which the play's climax begins with the famous lines, "Farewell to the world and to the night farewell..." is bound to bring tears to the eyes as performed by Living National Treasure, Tamao Yoshida, and the other puppet operators. Informative earphone commentary in English. (265 7411) Ends Feb 21.

Kabuki (Kabuki-za) Sugawara Denju Tenarai Kagami (The Secret of Sugawara's Calligraphy). Act 1-3 at 11am; Act 4-6 at 4.30pm. The play is loosely based on the life of a master calligrapher of the ninth century, but its main appeal lies in the character of triplets who are rivals and become the victims of divided loyalties. (541 3131) Ends Feb 26.

Hakuhinkan Theatre. Song and Dance 1988. An entertainment featuring two young jazz dancers from the USA, Bryant Baldwin and John Cheeseman, and one from Japan, Ryo Ammiya. Ends Feb 28.

Aoyama Theatre. 35 Steps. A musical revue highlighting past, present and future productions by the Shiki Theatre Company, which is 35 years old this year from West Side Story to Phantom of the Opera. There is also a rather tiresome tribute to the French chanson (371 1003) Ends Feb 21

FINANCIAL TIMES

BRACKEN HOUSE, CANNON STREET, LONDON EC4P 4BY
Telegrams: Finantimo, London PS4. Telex: 8954871
Telephone: 01-248 8000

Wednesday February 17 1988

Waldheim should go

A GROUP of distinguished historians found that he had been less than candid about his wartime record. But President Kurt Waldheim of Austria is an honourable man. The historians pinned no war crimes on him. Two years ago he denied that he had known about the deportations and mass killings in the Balkans. But Kurt Waldheim is an honourable man. Confronted with the historians' report he said that "everyone" had been informed (and never mind that he thereby undermined a standard and often justified alibi of so many forced servants of totalitarianism). Since his election to the presidency, the good name of Austria has been dragged through the mud. But Kurt Waldheim is an honourable man. He says, truthfully, that he was elected by due democratic process. He is less safe when arguing that democratic verdicts are not reversible. The election of President Nixon was.

The case against Waldheim, the man, is not strong enough to warrant persecuting him. But the case against Waldheim the President is unanswerable. His wartime record is no worse than that of plenty of others on both sides of the Second World War. But his shiftiness under attack, understandable though it may be on human grounds, disqualifies him from the office to which he was elected. The Austrian President does not run the Government: but he is supposed to be the conscience of the nation. The Waldheim of the past two years is not the man for that role.

Social conflicts

If there were any doubt about that, it should be dispelled by the protocol subterfuges by which he will be denied a central part in the observances, next month, of the 50th anniversary of the German annexation of Austria. Here is a country excluding its head of state from what is intended to be a celebration of its own identity.

To make matters worse the conflict surrounding the President threatens a recrudescence of the social conflicts that rent pre-Anschluss Austria and helped to make it an easy prey to the Nazis. Those members of the conservative People's Party who want to stick to Mr Waldheim through thick and thin, and especially the party leader, Dr Alois Mock, should ponder the dangers. Their present coalition with the Socialists is not the last word of political wisdom, but any attempt by the conservatives to break it up and go to the country on a "back Waldheim and hang foreign opinion" ticket is bound to leave a nasty smell and do the country lasting damage. No state flouts world opinion except at its peril.

Huge tasks

That is true even though the campaign against Mr Waldheim has been marred by excesses including, probably, forgery.

No state can afford to sacrifice the need for reform – a need that nobody seriously denies in Vienna – to the ghosts of the past. The Socialist-conservative coalition faces huge tasks: putting to rights a clutch of state-owned enterprises losing money; rethinking Austrian relations with the European Community; reforming the tax system. There is enough there to challenge and strain the consensual system which gave birth to the coalition. If it cannot bridge its differences on these issues, which are the future of Austria, there would be a case for breaking up and going to the country. An election on the issues of the past would be at best absurd, at worst disastrous.

That leaves unanswered the question as to how to replace Mr Waldheim. The constitutional procedure that could be adopted is uncertain, especially as it must lead to a referendum which Mr Waldheim might win in the present state of public opinion. He must be reminded that he has taken an oath of office which binds him to serve the best interests of the Austrian Republic. The time has come for Mr Waldheim to do the honourable thing.

Lord Cockfield asks too much

THE European Commission's drive to abolish internal barriers to trade within Europe by 1992 deserves the support of EC member countries. But bureaucrats in Brussels should be careful to keep their enthusiasm for harmonisation in check. Uniformity should not be imposed for its own sake, but only when it is essential to the cause of freer trade. The demands for closer alignment of value-added tax rates and excise duties fail to meet this criterion; Brussels is here demanding changes that are politically highly charged, yet economically unnecessary.

Lord Cockfield, the vice-president in Brussels responsible for the internal market, wants to impose two VAT bands on member states: a standard rate of between 14 per cent and 20 per cent for the majority of commodities and a reduced rate of between 4 per cent and 9 per cent for a limited number of sensitive items such as food, books and transport. On excise duties, he is demanding even greater uniformity: the same rates of tax in all countries despite enormous existing disparities.

Alcohol taxes

These demands are extremely onerous. The UK, for example, taxes alcohol heavily by European standards. To conform to the Cockfield rule, it would have to reduce levies on spirits and wine by around 50 per cent. In a study published yesterday, the London-based Institute for Fiscal Studies calculates that this would lead to a rise in alcohol consumption of as much as 40 per cent. Mediterranean countries, by contrast, would face huge increases in taxes on cigarettes and alcohol.

On VAT, the plan would require the UK to tax zero-rated items such as food at the minimum rate of 4 per cent. Brussels is thus asking Mrs Thatcher to renege on election pledges. Children's clothing, a sensitive item in the UK, does not qualify for the reduced band and would therefore have to be taxed at the standard rate. Countries that rely particularly heavily on VAT would be hit especially hard. The IFS reckons indirect tax receipts could fall by about a quarter in Denmark.

US practice

It is clear that the dismantling of frontier controls will require changes in the administration of member countries' tax systems. The way in which VAT and excise duties are collected has to change because countries rely on frontier documentation in collecting and enforcing the levies. But it is less obvious that rates have to be closely aligned. Think of the US where a profusion of different sales taxes in different states does little to impede vigorous competition.

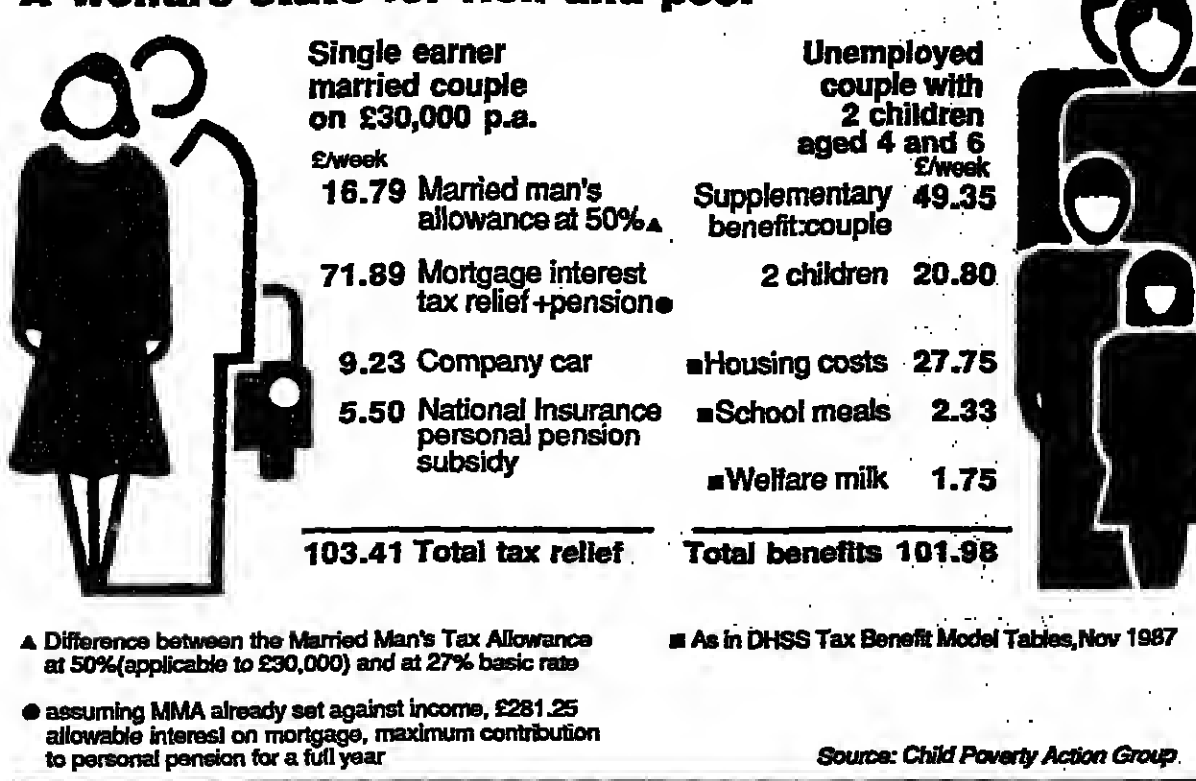
In particular it is unlikely that differences in indirect taxes give producers in different EC countries unfair cost advantages. This is because the rate of VAT depends on where a product is sold, not on where it is produced. Danish bacon bears VAT at 22 per cent in Danish shops yet is untaxed in UK supermarkets. More generally, with the exception of excise duties on some fuels, indirect taxes are levied on final consumers, not factors of production. If Lord Cockfield really wants to eliminate competitive distortions, he ought to press for uniformity of the taxes that do vary with the location of production – for example payroll taxes and corporation tax.

Different rates of VAT present a real problem only to the extent that they encourage cross-border shopping by EC consumers. High VAT countries could lose retail business to low VAT countries. But as the IFS points out, it is no business of Brussels to protect countries from the consequences of their own high taxes. At most all that is necessary are lower bounds for tax rate to limit the scope for "competitive" tax cuts. Bands as such are unnecessary. In his haste to eliminate controls, Lord Cockfield is in danger of imposing fresh and unnecessary constraints on EC members.

As Mr Lawson prepares the Budget, Michael Prowse assesses his tax record

Reform is more than lower rates

A welfare state for rich and poor



▲ Difference between the Married Man's Tax Allowance at 50%(applicable to £30,000) and at 27% basic rate

● assuming MMA already set against income, £281.25 allowable interest on mortgage, maximum contribution to personal pension for a full year

■ As in DHSS Tax Benefit Model Tables, Nov 1987

Source: Child Poverty Action Group

THE APPROACH of Mr Nigel Lawson's fifth and possibly last Budget is focusing attention on the prospects for radical tax reform. What counts as radical and what counts as reform, however, remain subjective and controversial issues.

The free-market right regards any cut in income tax rates as reform: it would be delighted if Mr Lawson brought the top rate down to, say, 40 per cent and reduced the number of bands. Delight would turn into ecstasy if the Chancellor also took an axe to levies on capital and did away with the much-resented inheritance tax.

But for the socially-concerned left, reform is synonymous with steps to increase the fairness of the tax system. The Child Poverty Action Group, for example, points out that the better-off have gained disproportionately from the tax changes of the past eight years. In its view, further cuts in tax rates should take low priority.

The Chancellor should instead begin to sweep aside the "welfare state" of tax perks and allowances enjoyed by the better-off (concessions such as mortgage interest relief and subsidies for pensions and company cars) and concentrate state assistance on the poor, especially those with children.

Fairness, it must be admitted, has taken a back seat in the worldwide tax reform debate of recent years. The spotlight has been on technocratic virtues such as simplicity and economic efficiency. But the pendulum is likely to swing back in due course: as the scale of the tax cuts enjoyed by the rich becomes better appreciated, equity considerations are likely to reassert themselves.

Resource constraints in the public sector – particularly the crisis in the National Health Service – are already bringing questions of fairness to the fore. The Confederation of Health Service Employees (Cohse), for example, is planning to prick the nation's conscience with a "day of action" on March 14, the eve of the Budget.

Mr Lawson is expected to focus mainly on personal tax changes next month, on the grounds that he has already dealt with corporation tax, capital taxes, and savings and investment. Fiscal experts, however, complain that most of the so-called reforms in these areas have been half-hearted. Their (probably forlorn) hope is that the Chancellor will try to put right past mistakes, as well as to break new ground.

The corporate tax reforms of 1984 are far from universally admired. Mr Lawson is heavily criticised for removing all adjustments for the impact of inflation – a curious decision when the Government has gone to great pains to try to "index" other levies such as capital gains tax. Corporate taxes are based on historic-cost (and hence partially fictitious) measures of profit, when most economists, including the Treasury's deputy chief economic adviser, regard current-cost profits as a better gauge of economic performance.

Mr Lawson also phased out capital allowances, supposedly to remove an artificial incentive to invest. Yet recent research by the Institute for Fiscal Studies suggests that the old regime included a small net *disincentive* to invest. All the Chancellor has managed to do is to increase this disincentive by raising the cost of capital in industry.

Flaws in the corporate tax regime matter because the levy now bites so hard. It is expected to raise about £14bn in 1987/88, more than a third of the expected yield from income tax; when Mrs Thatcher took office it was yielding less than £4bn, or less than one sixth of income tax.

The Chancellor's 1986 reform of capital transfer tax has been savaged by tax experts. What he did was reintroduce the old estate duty under the new (and inappropriate) name of inheritance tax. As Professor Cedric Sandford has pointed out, the result is a state-run "lottery" on length of life. You pay tax only if you die within seven years of making a transfer.

Mr Lawson missed a golden opportunity to introduce an inheritance tax worthy of the name: a tax on the recipients of wealth rather than on the donors. As the IFS argues, such a reform could do much to promote genuine equality of opportunity.

Suppose, it says, wealth receipts were taxed on a separate but identical scale to income tax. Then £100,000 left to one person would attract a lot of tax; but 100 separate bequests of £1,000 would attract no tax at all. A powerful incentive for the dispersal of wealth would thus be established. A Government genuinely interested in "popular capitalism" can surely not leave Mr Lawson's inheritance tax uureformed.

The Chancellor's attempts to rationalise the taxation of savings and investment have been equally unsuccessful. In 1984, Mr Lawson ridiculed the "expenditure tax" approach, under which distortions would be minimised by the "levelling up" of tax allowances. In effect the privileges of pension funds would gradually be extended to all forms of savings.

The Treasury tried the opposite tack of "levelling down" allowances. It managed to remove the comparatively minor anomaly of life assurance relief but failed, partly because of lack of political will in Downing Street, to strip the mighty pension funds of their privileges. Bricks and mortar, of course, also held on to their remarkable reliefs.

By 1986, Mr Lawson was ready to try the other tack: tax-privileged personal equity plans were unveiled in an attempt to counter the overwhelming fiscal advantages of institutional investment. But they have not been a success; only around 3 per cent of share-owning individuals have exploited them and these have been mainly rich investors with large portfolios – hardly the new entrants the Chancellor was hoping to encourage.

At the start of the Tories' third term, therefore, the tax regimes for companies, capital transfers and savings are all badly in need of reform. In addition, the Government is under strong pressure from the European Community (not to mention tax economists) to extend value-added tax.

Sir Geoffrey Howe (Mr Lawson's predecessor) achieved a shift to indirect tax in 1979 in the worst manner possible : by an inflationary near-doubling of the rate of VAT rather than by a logical extension of its coverage. The Government has since been unable to secure a more than trifling extension of the tax, which covers less than 60 per cent of consumers' expenditure. One important reason for public hostility has been the failure of ministers to offer to insulate the poor from the effect of extension by raising social security benefits.

The main thrust of personal tax reform on March 15 is likely to be a reduction in tax rates. They have already come down considerably under the Tories. The basic rate is 27 per cent compared with 33 per cent in 1979 and the top rate is 60 per cent compared with 83 per cent (or 98 per cent if the old investment income surcharge is added in). Mr Lawson will aim for a top rate of less than 50 per cent – possibly as low as 40 or 45 per cent – and a basic rate of 25 per cent.

The 98 per cent rate was an aberration, but the efficiency arguments for further cuts are less strong than is ofteo claimed. As the IFS argues, "there is little evidence either to support or refute the view" that lowering tax rates would improve economic performance.

The argument that high taxes are automatically a work disincentive rests on the fallacy that individuals' utility or sense of well-being is determined entirely by the rate at which they can transform work effort into private consumption. But it is rational also to care about the quality of public services; indeed, most polls show that people would prefer higher public spending to tax cuts.

Britain's top rate of 60 per cent is slightly below the average of top rates for the rich OECD countries. So there is no overwhelming pressure to "conform" to international trends. In any case the UK economy has been displaying unusual buoyancy in recent years even with its "high" marginal rates on earned income.

Equity arguments, by contrast, are more concrete. The after-tax distribution of income has become markedly more unequal under the Tories. And as the Child Poverty Action Group stresses, the average weekly gain to the top 1 per cent of taxpayers from past tax cuts has been worth nearly twice the total weekly *income* of an unemployed family with two children on supplementary benefit. To push further in the direction of inequality will be a political gamble with uncertain economic dividends.

The equation of tax reform with rate reduction is a misconception. Instead of settling for the superficial simplicity of fewer tax bands and lower rates, Mr Lawson arguably should concentrate on raising the threshold for income tax, thus taking many poor families out of tax altogether. He could also work towards the creation of a fairer and more rational personal tax base.

This would involve reining in the middle class's "welfare state" of perks and allowances. Income-in-kind, which economists recognise as an inefficient form of payment, should be taxed more severely: company car concessions alone cost the Exchequer about £1bn a year. More important, all special allowances – such as mortgage interest relief – could be restricted to the basic rate of tax, pending their abolition; this would be valuable even if the top rate is reduced. At present, high earners can reap bigger rewards from their welfare state than the poor get from the real thing.

No reform of personal tax can ignore national insurance contributions, which are a tax in all but name (Beveridge's plan to link them actuarially with benefits proved quite unworkable). NICs ideally ought to be fully integrated with income tax. But if this is too bold an objective for this parliament, the Government could make contributions payable on unearned income, scrap the levy's anomalous £295 a week ceiling, and make the tax more progressive by raising the rate for higher earners.

The final priority has to be an overhaul of the Napoleonic rules governing the taxation of husband and wife. Besides eliminating overt sexism in the code, Mr Lawson has to decide whether the tax unit should be individuals or married couples. The introduction of partially transferable allowances between spouses (once Inland Revenue computerisation allows) would represent a muddy and administratively complex compromise. People cannot be regarded as fiscally independent if they are continually shuffling allowances among themselves.

The bold course would be to follow the international trend towards fully independent taxation and plump for equal but non-transferable allowances for spouses. Mr Lawson, however, is more likely to settle on a compromise that falls short of economic rationality – just as he did in the taxation of savings, inheritance and company profits.

This is the second of a series in which FT writers look at prospects for the coming Budget.

OBSERVER

Chinese Elle

■Hachette, France's leading publishing group, made certain yesterday not to be outmanoeuvred by Ambroise Roux, the veteran deal-maker who has replaced Jimmy Goldsmith at the head of Génerale Occidentale.

At the very moment that Roux was announcing the creation by GO of a major new French publishing group second only to Hachette, his bigger rival disclosed an agreement with the Chinese Government to publish Elle in China this year.

The first issue in Chinese of the French fashion glossy will be published in July and available at some 4,000 different news-stands throughout the country. Hachette expects to print up to 100,000 copies for the first issue and hopes to increase the number to 300,000 for the second in October. "But it will be clearly difficult to judge the circulation since we expect each copy to be read by at least 35 people," said an Elle executive yesterday. "And I wouldn't be surprised if many more issues will be photocopied for general distribution."

The Chinese Elle will be published as a joint veoture between the French group and the Shanghai Publishing House, a Chinese government institution. The plan is to move to four issues in 1989.

It will be the first publication of a western magazine in China. The first issue, with 90 pages of editorial, is also expected to carry a heavy load of advertising. "Major western fashion and luxury goods manufacturers are keen to advertise for prestige reasons in the first issue, even though many of their products are probably completely unknown to the Chinese public," said an Elle advertising executive.

For Elle, publishing in Chinese is not a dauntingly new experience. Hachette already has a Chinese edition in Hong Kong which sells about 30,000 copies a month. But unlike the Hong Kong edition, the new Chinese Elle will be in Mandarin not Cantonese.

The venture is also the latest step in Elle's foreign expansion during the last few years. The magazine, which sells about ½m copies a month in France, now has a circulation of about 1m a month in the US and 250,000 a month in the UK. In both the US and the UK, Elle is associated with Rupert Murdoch.

There are already Spanish and Italian editions, and preparations for Swedish and Brazilian launchings are under way. Negotiations for a Soviet edition, however, have been much more difficult. Unlike the Russians, the Chinese actually pressed us to go ahesd, said the lady from Elle.

Watery tastes

■East Europeans, aware of Margaret Thatcher's links with Mikhail Gorbachev, sometimes ask whether she has followed the Soviet leader's example and outlawed vodka – or at least some equivalent like Scotch. They appear to take it as a joke when told that she has practically banned Perrier, though it is well enough known that she has.

Brecon Beacons Natural Water, the company that now officially supplies the House of Commons, sent us a couple of samples of their wares the other day. It is all right, but only a chsuvinist would say it was a patch on the French stuff. Come to that, there is a water called Apollinaris which is even better, though it seems to be seldom avsilable in Britain.

Pound of flesh

■Dismayed that its call for more money for the National Health Service has gone unheeded, the National Union of Public Employees has started printing its own.

The unconvincing pound notes bearing the Queen's head and a message from NUPE were handed out yesterday by two

"One day, my son, all this will be yours – and you'll save thousands on tax into the bargain."

norses picketing the Bank of England at morning rush hour.

Chris Humphreys, NUPE's London divisional officer, said the day, exactly a month before the budget, had been chosen to demonstrate that a 1p cut in income tax would cost £1.3bn. "We want that for the health service," he said, then, on reflection, added: "But one billion would do."

The Bank of England was not amused by the demonstration yesterday. A spokesman pointed out that reproduction of any part of a banknote, including the Queen's head, needed its prior approval and this had not been obtained. "If they had approached us," he said, "we would have tried to discourage them." Humphreys, whose officers handed out 3,500 of the pretend notes during the day, was unrepentant. He said: "I am sure that the Queen is a supporter of the NHS and wouldn't mind. We are glad to have her on board."

He promised more attention for the City in two weeks' time. NUPE is printing NHS share certificates which it plans to hand out outside the stock exchange.

A spokeswoman for Buckingham Palace confirmed on the telephone yesterday not only that the Royal Family supports the Health Service, but also that it sometimes uses it.

Tummy trouble

■A tale of how plastic surgeons were hoaxed by one of their own is told, and illustrated, in a history of the first 40 years of the British Association of Plastic Surgery, sponsored by Smith and Nephew Medical.

The hoax was perpetrated upon the editor of the association's journal, the British Journal of Plastic Surgery, in a paper in his first volume in 1948.

Sketches to illustrate an article on surgically shrinking a protuberant tummy, left lying on the editor's desk, drew the attention of a passing graffito artist. He added a few embellishments to two of the 15 sketches showing the various excisions a surgeon might use in "abdominal reduction". These additions escaped the eye of editor, author, proof-reader, even the readers, and came to light only when the artist himself confessed 24 years later.

One wonders how many cosmetically remodelled abdomens bear scars which have an uncanny resemblance to a wasp or a man in a trilby hat. Their owners, viewing them upside down, may never have noticed.

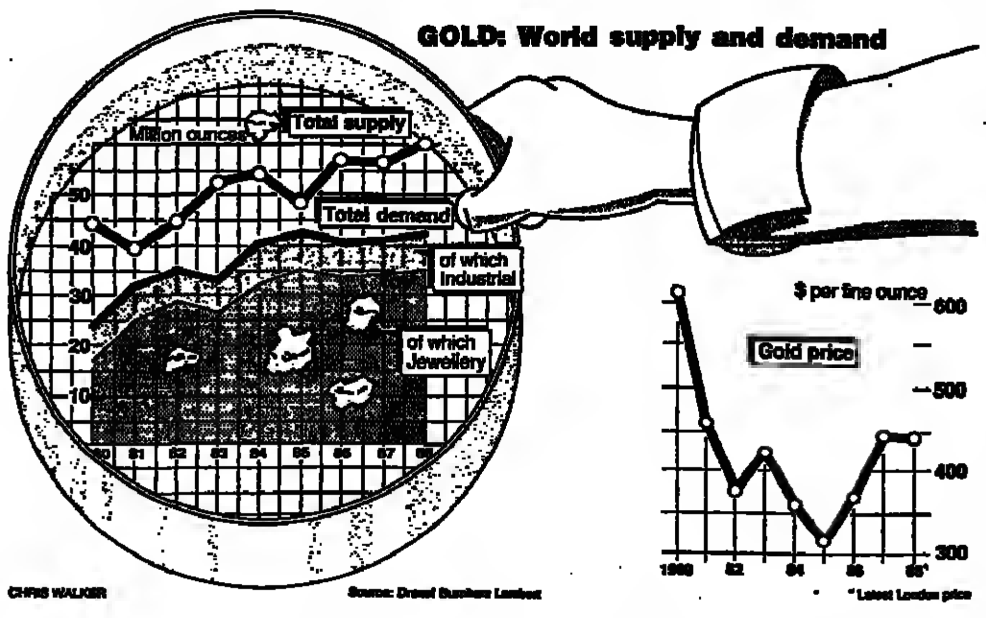
No FT, no taste

■The Financial Times has been consigned by a French newspaper to the same culinary dustbin as English food. Libération celebrated the FT's birthday with a misprinted headline which explained the newspaper's motto – Without fear and without favour. The French version was "Sans peur et sans saveur".

A journalist at the paper in Paris admitted that the error was not deliberate, but said she wished it had been.

صكرا من الاهل

Kenneth Gooding looks behind the recent slide in world bullion prices



Putting a future value on gold

IN THE singular world of gold mining it is possible today to raise $450m cash and pay interest of only 2.5 per cent. Newmont Mining, which is rapidly becoming North America's biggest gold producer, has done just that by raising n gold loan.

Newmont borrowed gold from a group of banks, turned it into immediate cash and will return the precious metal, ounce for ounce, from its own future production over the next five years. The news of the Newmont deal has been hanging over the market for weeks and has depressed the price of gold bullion.

This is not surprising: It is the biggest-ever gold loan and highlights a new form of financing increasingly popular in the precious metals business.

Some analysts suggest that Nawmont might be solving its own problems at the expense of the rest of the industry – driving down the price of gold at a time when the fundamentals suggest gold should be heading fast in the other direction.

As far as many investors were concerned, gold already had a somewhat tarnished reputation. For traditional gold bugs, October's crashing markets, the devalued US dollar and the threat of future inflation as the central banks pumped new money into the system should have meant that the gold price rose dramatically.

Instead, after having briefly gone above $500 a troy ounce just before Christmas – its highest level since February 1983 – the gold price has been gently sliding since the new year.

Those that think gold is retaining is historical status as a precious metal point out that, by ending 1987 at $487 an ounce, gold registered a gain in dollar terms of 21 per cent over the course of the year. And that followed a 26 per cent gain in 1986.

In fact, there were several reasons why gold failed to take off vertically after Black Monday. There was a certain amount of selling of hoarded gold by people who had previously invested in the metal because they believed the stock markets were too high. They cashed it in, often to cover other pressing commitments caused by the crash.

But the most substantial element in the equation was the producers themselves. When the metal rose briefly to $490 an ounce on October 19, "producers everywhere, including South Africa and the Soviet Union, tried to capitalise on the high price and sold", says Mr Jeffrey Nichols, president of the New York-based American Metals Advisors consultancy group.

Mr Robert Guy, a director of merchant banker N.M. Rothschild and Sons, agrees. "The new major gold mining companies hava become n major influence on the movement of the gold price. The rise in the gold price above $470 was an opportunity too good to miss."

In Mr Guy's words, producers rushed to "lock in profitability", by selling forward as mnch future production as possible at the high price.

Mining companies use gold loans for one of two reasons: they either take a view that the price is unlikely to go much higher in the medium term, or they want to raise capital for investment. They borrow gold bullion at interest rates in the 1.5 to 3 per cent range and the debt is denominated in ounces of gold rather than dollars. Even the modest interest can be paid in gold.

Such a system is particnlarly attractive to the Australians. This is because first, the tax-exempt status of the gold mining industry in Australia makes it unattractive to borrow conventionally at high interest rates and, second, because the industry includes many very small companies which would have difficulty in providing security for more orthodox borrowing.

Mr Peter Fells, an executive director of Consolidated Goldfields, said recently that gold loans have accounted for about half of all reported financing by Australian gold mining companies in the three years to mid-1987.

Much of the money has been used to finance further mine development. Newmont is a special case. Last year it fought off an aggressive corporate raider, Mr T. Boone Pickens, thereby lifting its debt to more than $2bn. The gold loan will be used to reduce the interest on a great deal of that debt.

During the past 20 years jewellery has been the cornerstone of the gold market. In that time about 60 per cent of the gold coming to the market has gone into jewellery. And nearly 8,000 tonnes, or 30 per cent of all gold supplies (excluding central banks), has been absorbed by a broad sweep of countries from Morocco to Egypt, Turkey, Saudi Arabia and the Gulf, the Indian sub-continent and south-east Asia.

Mr Green, in his book, The Prospect for Gold: The View to the Year 2,000, says: "This off-take includes 18-carat gold jewellery exported from Italy, 22-carat locally fabricated jewellery, coins made in local factories, kilo bars, and a wonderful range of small bars. They are sold on very low mark-ups over the gold price of the day, and represent the basic form of saving for millions of people in countries where banking systems, savings schemes and stock markets are not available (or to be trusted)."

But can gold hold its value if – as seems possible – there is a glut of production in the next few years? During 1985-88 some $3.2bn will be spent on new mining capacity to bring on stream an extra 238 tonnes of gold production – equivalent to nearly one fifth of total western world output in 1986.

Optimists point out that in a comparison between the years 1985 and 1986, gold supplies from communist bloc sales and scrap increased by 358 tonnes but despite this the gold price rose by $50 an ounce.

"The gold production increases we can anticipate between now and the year 2000 can hardly be described as taking us into uncharted waters," says Dr David Rees, international financial services manager of GoldCorp Australia. "Nor are the volumes of gold likely to hit the world market of such an order as to throw it into confusion."

The optimists also point out that the Japanese seem to be getting a taste for gold as an investment. In 1986 the Japanese bought 6m ounces of gold bullion, virtually the combined production of the US and Canada that year.

There is also the fact that the price of gold remained relatively high last year in spite of the impact of the gold loans and a fall in demand. It stayed firm because output also fell sharply. Supply, including scrap and the selling of hoarded jewellery, came to about 58m ounces (about 1,800 tonnes), down 13 per cent from the record of more than 66.8m ounces (2,087 tonnes) in 1986.

Mr Nichols, of American Precious Metals Advisors, forecasts that supply this year will rise to about 63.3m ounces and that industrial users and jewellers will take about 44.7m ounces.

Looking at the metal's performance over the past few weeks he reckons that Newmont should not be allocated all the blame. "Gold loans have not been the only force pushing precious metals markets lower. Both the Soviet Union and South Africa reportedly have been heavy sellers. Miners everywhere have stepped up their forward sales, literally racing to see who can sell first.

"The stepped-up pace of selling is itself a consequence of the increasingly bearish and pessimistic psychology that has taken hold of the market since New Year's day. And buyers have been absent – partly reflecting seasonal trends, but partly because of the discouraging effect of a stronger dollar, stable stock markets, favourable inflation news in the US and continued satisfactory real growth in the major economies."

Gold's supporters point out that it is worth remembering that what is sold today can't be sold tomorrow. In other words, the effect of increased forward sales like the Newmont loan is to shift the flow of gold supply from the future into the present. Not only will the reduction in the flow of forward selling ease the pressure on the gold price fairly quickly as the year progresses, but the flow of new mine production into the market over the second half of the year will not depress the price because it has already been sold.

Franco-British relations

Time to stress the common interests

By Jean-Pierre Chevènement

IN WHICH direction is Europe heading? What will make it tick? I am convinced that the strengthening of Franco-British bonds will greatly help to answer these questions.

France was in at the beginning of the European Community. The UK took a long time to sort out where its centre of gravity lay: in Europe, no doubt, but also in the Commonwealth and in the United States. Europe is a more recent choice, and some see it as being more fragile and by no means exclusive.

And yet, have not France and Britain a great deal in common? Enough, at any rate, to draw their conceptions of Europe's future closer together?

The history of these two countries has led them away from Europe. Long-time world powers, they have acquired reflexes and views that put Europe in a much wider geopolitical context. (Tbe fact that each has a nnclear deterrent reflects this attitude.) Britain and France are in a good position to assess the relative decline of Europe and the risk of deindustrialisation. Both are strongly attached to their national identities. They do not want a Europe that would efface their specific characters. On the contrary, they are seeking the sort of Europe that would give them a new dimension, a new impetus.

In France, people attach a great deal of importance to those aspects which separate Britain from Europe. I believe that it is now essential to stress the shared preoccupations and interests. First, both countries see Europe as n confederation in which distinct nations are grouped together, each determined not to lose its uniqueness, but to seek the possibility of a shared development.

Second, Britain, like France, is allergic both to the development of community bureaucracy without properly defined objectives, and to institutional artifice, which covers up difficulties encountered in fields which are crucial to Europe: science, technology, industry, social policy, common trade policy, currency, defence and space.

In all these areas, however, the views of the current British Government differ from those of the French Socialists. The UK's more than reserved attitude towards the European space programme illustrates the divergences.

It would be regrettable if these disagreements were allowed to mask the shared outlook which, in the long run, may become obvious in practice. The British and French must agree jointly to promote a pragmatic approach, which should overwhelm the abstraction of a supranational Europe cut off from reality.

European achievements, such as space research, Airbus and Eureka (which the British have supported from the start) were only possible because voluntary partners were rallied, motivated by their enthusiasm for the actual projects. The principle of a "variable-geometry Europe", one in which national partners come together on specific projects depending on their enthusiasm and commitment, should not excluda other possibilities, but since it has been a success, it should become a source of inspiration.

For historical and geographical reasons the Franco-German partnership plays a central role in the construction of Europe. However, this should not lead us to overlook or underestimate Britain's economic, political and financial weight. Surely it is time to propose that Britain and France work out what an independent Europe should be?

In future, Europe will be less a part of the American sanctuary: what some call "decoupling" is gradually gaining ground. The intermediate nuclear forces treaty, signed by the US President and the Soviet leader, positive though it may be, is in some ways a reflection of this tendency. This trend will probably become reality by the end of the century. Should not Europe try to anticipate this situation?

Any discussion of an autonomous European defence system must include West Germany, Britain and France. The latter two could contribute their powerful military industries, which should co-operate more closely. They can provide the nuclear hard core around which a European deterrent could be structured. This is the only strategic concept which matches the geographic situation of the continent and tbe only one that would reassure Germany.

However, in the nuclear era, this inevitable decoupling in the field of defence, which calls for the remodelling rather than the dissolution of the Atlantic Alliance, implies an economic decoupling as well. The present economic situation has reinforced the urgency of giving new impetus to European growth in order to limit the risks of a worldwide recession.

This raises the question of whether Europe is capable of developing independently, both in technology and industry, and in the monetary and financial sphere. President Mitterrnnd has mnde an appeal for a new multipolar economic and monetary order, revolving round the dollar, the yen and the Ecu. Clearly, this cannot be achieved unless Europe finds inherent sources of growth and cohesion.

Britain's active participation in this task is one of the conditions for its success. It would provide the essential element of balance, in particular to help reinforce tha European monetary system and promote the Ecu to the rank of a true currency.

The choice is becoming more and more irreversible, with the tunnel under the Channel as an excellent symbol. I believe that it is fortunate for Europe that Britain, instead of withdrawing, is trying to make its mark; while France, because of its similar views, is in a good position to engage in a fruitful dialogue with the UK. The main point is for the dialogue to begin because it could substantially contribute to the construction of a truly European Europe.

The author is parliamentary deputy and mayor of Belfort. He served in the Socialist Government from 1981 to 1986.

Letters to the Editor

Anglican anxieties

From Mr Frank Field MP.

Sir, Richard Donkin's article, "Seeking the Moral High Ground" (February 13), misleads your readers by suggesting that the argument about the Church's political role is only a concern of the right. It is not.

In their attack on John Selwyn Gummer the Archbishops of Canterbury and York try to have their cake and eat it. As God made this world, the Primates claim that everything that goes on in it is of concern to God. It is therefore as right as it is natural to comment on what is going on in secular society.

But this natural involvement will be mirrored by that of politicians who question the Church's political approach, and may well lead to a concern about events in the realm of what is crudely called "Church affairs."

Unlike many oe the right, John Gummer has never disputed the right of the Church to be political. What he has questioned – as others have – is how well it does this task when the exercise starts from secular premisses rather than an attempt to relate God's vision to contemporary events.

Similarly your correspondent, in drawing attention to Dr Habgood's "scornful treatment of Mr Gummer in a letter to The Times," misses the main point. What Mrs Thatcher thinks about Dr Habgood is not the only thing at issue. More important is the attitude of many practising Christians.

To put it at its kindest, Dr Habgood's comments about the Crockford's Preface cannot have provided much solace to Gary Bennett in the days before his suicide. Nor does an attempt at a witty letter to The Times let the Primate off the hook upon which he so eagerly impaled himself. Under the circumstances, a straight apology for his behaviour was required.

I agree that, while John Gummer seems somewhat obsessed with homosexuality – a topic Jesus did not even bother to mention – his main thrust has wide support. The Church is in possession of the most important message ever given to mankind. The Anglican church has always believed that the preseotation of this message requires a drawing upon Scripture, tradition and reason.

I believe that current failure to advance this special Anglican contribution to understanding how God speaks to the world is the ground for the widespread disappointment with the present Anglican leadership.

Frank Field,
House of Commons,
Westminster, SW1

Firm commitment to an important change

From Mr Selwyn Alleyne.

Sir, Readers of your leader on Hong Kong (February 11) could have been left with a wrong impression about recent events and the reaction of the Hong Kong public to them.

On February 10, the Hong Kong government tabled a White Paper in the Legislative Council on "The Development of Representative Government: The Way Forward." As you correctly reported, this provides that, in 1991, 10 members of the Legislative Council will for the first time be directly elected by universal adult suffrage.

To those in a mature democracy like Britain, this new step forward may seem pretty small beer. But for us in Hong Kong, which until 1985 had a wholly appointed legislature, it represents a very significant advance. The community is sharply divided on the advisability of moving as early as 1988. This is why the Government has decided that the right time to take this important step forward is 1991.

The overwhelming reaction from the Hong Kong public and media was that the changes represented a prudent, measured response to the many and varied views expressed by the community.

Of course, some members of the public were disappointed that the reforms did not go further. But the important point is that we now have a firm commitment to an important change.

Bearing in mind the experience of some countries that rushed precipitously along the road of political reform, is it so surprising that we have instead opted for the path of steady progress?

Prudent, practicable policies may not make good headline material. But they do make for good government.

Selwyn Alleyne,
Hong Kong Government Office,
6 Grafton Street, W1

NHS priority is better management rather than more money

From Mr J.C. Hurst.

Sir, You are right to conclude your editorial on the financing of health care (February 15) by emphasising that the priority is not so much to find more money (although this is vital) as to find ways of improving the internal organisation and management of the Nationai Health Service.

Since my appointment as chairman of Wirral Health Authority two years ago I have been eppalled at the lack of management information in the NHS. I have strained at the prospect of improving accounting systems in our hospitals. Until we know where the money is going, we cannot hope to manage properly.

J.C. Hurst,
Wirral Health Authority,
Clatterbridge Hospital,
Clatterbridge Road,
Bebington,
Wirral, Merseyside

From Mr John McGarry.

Sir, I read Michael Prowse's article on the National Health Service (February 6) with interest. In this part of the UK Professor Enthoven's ideas would fall down for the following reasons.

The next nearest District General Hospital is 46½ miles away on a winding B class road which is often blocked with trees, flooding, or snow in winter – and thousands of holiday-makers in the summer.

There is little public transport, and what there is is declining.

The rail-link is shortly to be axed.

The hospital car service has been cut hy nine tenths.

The North Devon population is an ageing one and should not be forced to travel when sick; relatives likewise.

We are a low wage area: travelling costs are a serious problem for most ordinary people.

Finally, there is no private hospital in North Devon, as there never has been any demand for such a service; private health insurers tell us that the percentage of people thus insured here is lower than anywhere else in the UK. I think Professor Enthoven's ideas would be difficult to put into practice here, and in many other poorer and rural districts.

John McGarry,
The Old Rectory,
Bittadon,
Barnstaple, Devon

From Mr K.T. Hesketh.

Sir, Nothing could have been more apt than the juxtapositioo of Michael Prowse's article on the National Bealth Service with a letter from Mr C.D. Grant entitled "Bad news is news and good news is no news" (February 6).

Mr Prowse would appear to use suspect statistics to try to justify what he is saying.

In order to criticise private medicine he alleges that because doctors in the US are paid on an item-for-service basis "...they have a cash incentive to perform too many operations". Yet other professionals are paid on that basis in this country, and in every other. It does not follow that British doctors behave in this way. In practice, I think, quite the contrary.

To emphasise his point Michael Prowse says that an American woman, for example, is three times more likely to have a hysterectomy than her British counterpart. What makes him choose the US for his figures? Why not France or Germany, even Ecuador?

Why does he wish to compare US private medicine with the Natiooal Bealth Service? He should compare like with like. The US has a different medical system with different cultural and social demands npon it. My experience of private medicine in the UK is that it is far more cost-effective than the state system, and far more in tune with reality.

Our problem over waiting lists has been with us for many years – certainly 20 years – without attracting a great deal of media attention. Is it that this topic is currently selling newspapers, in the relative absence of other grounds on which to criticise the Government?

My waiting list would not exist if it were not for a backlog of work being rolled over from previous years, when resources were extremely poor compared with those which we have now.

If it were possible to sell off that backlog of non-urgent surgery to other NHS or private hospitals, the position would probably stabilise without the need to inject further large capital sums into the system. If the Department of Health and Social Security (DHSS) would publish an accurate list of the cost to the state of individual operations, it is more than likely that private hospitals allowed to tender for that work would clear the waiting list in a short time, within that cost framework.

That would mean that the problem would mostly go away without additional funding. There would be left in place a system which has probably increased its productivity more than any other during the last 10 years, largely in response to an nnprecedented programme of new hospital building and development.

K.T. Hesketh,
Sarum Road Private Hospital,
Winchester, Hampshire

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FINANCIAL TIMES

Wednesday February 17 1988

Defence and the economy will be the key issues in Washington, reports David Marsh

Bonn worried about Soviet military threat

WEST GERMAN Chancellor Helmut Kohl flies to the US today for talks with the Reagan Administration which are expected to bring to the surface serious differences between Bonn and Washington over the next steps in disarmament.

Mr Kohl, accompanied by Mr Hans-Dietrich Genscher, the Foreign Minister, is expected to appeal to the US to pay special attention to West German sensitivities about the military threat from the Soviet Union during the next delicate phase of arms control talks on nuclear, conventional and chemical weapons.

The West German Chancellor, who will be meeting President Ronald Reagan, Mr George Schultz, the Secretary of State, as well as leading congressmen, clearly fears that the mounting US election campaign will start to distract attention in Washington from arms negotiations.

Bonn officials yesterday expressed particular worries about lack of progress in superpower talks aimed at halving arsenals of strategic nuclear weapons, as well as delays in agreeing a worldwide ban on chemical weapons.

Difficulties put forward by the US in verifying Soviet reductions of weapons in both these categories are thought to be a particular hindrance.

The mood of the talks, which will be helping to prepare for the Nato summit on arms control at the beginning of March, has not been helped by a blunt warning given by Mr Frank Carlucci, the US Defence Secretary, 10 days ago in Munich over modernisation of shorter-range Nato nuclear weapons.

Additionally, a call last weekend by General John Galvin, the US supreme commander of Nato in Europe, for new American chemical weapons to be stationed on European soil has also met a frosty reception in Bonn. Officials said yesterday West Germany was trying to get rid of chemical weapons, not to deploy new ones.

Mr Carlucci said in Munich that the US would have to consider withdrawing troops from Europe unless Nato agreed to carry through a decision reached in principle in 1983 to upgrade nuclear weapons of less than 500km range during the 1990s.

This decision is of particular concern to the Federal Republic as East and West Germany would stand to be devastated by any use of shorter-range nuclear weapons deployed by Nato and the Warsaw Pact.

Bonn officials said yesterday that talk of US troop withdrawals represented "the wrong signal at the wrong time" to the Soviet Union.

Additionally, Bonn believes there is no need to start a debate now on 1990s modernisation, which is strongly opposed by both left and right in the Federal Republic.

A senior official admitted that a decision to produce a new version of the US Lance missiles based in West Germany would need to be taken several years before deployment. None the less, he said, the issue of modernisation was "not a question" for the moment.

Chancellor Kohl will repeat Bonn's opposition to the idea launched by the Soviet Union, and backed by the Opposition Social Democratic Party (SPD) of removing all nuclear weapons from Europe.

At the same time, West Germany is pressing its other Nato allies for a commitment to reduce present Warsaw Pact and Nato arsenals of short-range nuclear weapons as part of an overall "disarmament concept" – also including conventional and chemical weapons – to be negotiated in coming years.

Kohl: highlighting West German sensitivities

Kohl to urge further support of dollar

WEST GERMANY is hoping the US will take further action to restrain its budget deficit at a time when its own public sector borrowing is rising dramatically, turning into a potential electoral millstone for Chancellor Helmut Kohl.

However, the ballooning federal government shortfall will at least protect Mr Kohl when he is in Washington this week from perennial American calls that Bonn should ease its fiscal policy to boost growth.

As a result of extra spending on subsidies and lower tax revenues caused by the sluggish economy, combined with additional European Community spending following last weekend's compromise agreement on EC finances, the Finance Ministry reckons that this year's federal deficit will rise to more than DM40bn ($23.4bn). This compares with slightly under DM30bn approved by the Bundestag in November.

The opposition Social Democratic Party (SPD) yesterday claimed that the 1988 budget deficit would reach DM45bn, exceeding the Government's target by 50 per cent.

Bonn government officials said yesterday that Mr Kohl would use his talks in Washington this week to remind the Reagan Administration of its "monetary policy responsibility" in maintaining a stable dollar.

The West Germans have been pleased and relieved at the recovery of the dollar since the beginning of the year. The foreign exchange markets now appear to be taking a more positive view of international policy co-ordination than when the most recent Group of Seven agreement was announced before Christmas.

At the midday fixing in Frankfurt yesterday the dollar was set at DM1.7132, up from DM1.7078 on Monday and more than 13 pfennigs higher than its end-of-December low of DM1.5815.

US criticism of West Germany's monetary and fiscal stance – which helped set off last October's collapse of stock market prices – is expected to be kept firmly in the background during Mr Kohl's talks with President Reagan and Administration officials.

The Bundesbank, the West German central bank, reported that the general government shortfall last year rose to DM52bn on provisional figures, DM9bn more than in 1986. The overall public sector deficit in 1987 rose to DM48bn, DM12bn more than in 1986.

Last weekend's EC agreement, although giving Mr Kohl a welcome political boost during the West German presidency of the Community, has increased controversy over rising public borrowing. The package added slightly more than DM4bn to West German contributions to the EC for this year.

The extra spending is projected to rise progressively to DM10bn by 1992, increasing the likelihood of higher than expected increases in consumer taxes in 1989 and subsequent years.

Andrew Whitley reports on a Palestinian 'Day of Anger' in an Israeli-occupied city

Wet, cold and silent in Bethlehem

BETHLEHEM WAS shrouded in silence yesterday. Watched by an army patrol with little to do themselves, a small knot of tourists who had made the short, 20 minute drive from the noisy suburbs of Jerusalem, their raincoat collars turned up against the cold drizzle, wandered bemusedly along the hilltop town's blind-walled alleys.

A few older children poked their heads out of doorways, only to be shooed back inside again by their mothers' scolding voices. Only those who had business being there, licit or otherwise, were out on the streets.

The leaflets shoved under doors in the early hours of the morning, signed, as usual, by the Supreme Committee for the Palestinian Uprising, had said this would be "A Day of Anger." It would also be an all-out stoppage: no shops or businesses were to open – and definitely no going to work in Israel.

The enforcers were on the street. You could see them hanging around corners and in doorways in small numbers, their faces masked with the chequered Palestinian keffiyah (headscarf). A lone woman standing on the kerb was approached by one of them. "Where are you going sister? You are not thinking of going to work, are you?"

Strike-breakers have had their houses attacked with fire bombs in neighbouring, middle-class Beit Jala. Or so they say. Such incidents are almost impossible to confirm. Suffice, the good people of Bethlehem believe it happened, and are not prepared to take any risks, even if after 10 weeks of "the intifadah" they are beginning to weary.

So, although there was little of the promised anger in sight, all was silent as the grave yesterday. The only food sellers allowed by the strike organizers to do business were the roadside bread carts.

How, an innocent asked, did everyone know exactly what they were supposed to do, or not to do? The distribution of leaflets has been erratic lately, following raids on a number of underground printing presses. And "Number Seven" of the series was in short supply. The Israeli Shin Bet security police have been making progress.

The explanation is not too difficult. Like the Iranian Revolution of 1978 and 1979, the Palestinian uprising of 1988 depends heavily on the radio and the telephone. The first many in Bethlehem heard about yesterday's strike call was on Radio El Quds (Radio Jerusalem), the clandestine station broadcasting from southern Syria, on Monday.

Not that finding the station is as easy as it was, since Israel began jamming its transmissions last week. Back on the air again on Sunday, on a different frequency, it abruptly went off again yesterday lunchtime. Was this the Mossad, Israel's external secret service, being efficient, or just a technical fault?

Then there are the anonymous telephone calls, which have instilled more alarm among the unwilling foot soldiers of this uprising than anything else. It is with a certain awe that the people of Bethlehem speak of the callers' seeming detailed knowledge of their movements.

In a demonstration of the power they have come to wield, the strike organisers have now developed the ability to fine-tune their instructions: on one day all taxi drivers and bus companies were told to halt. So they did. On another, they let it be known that they were easing up on the pressure for a while - not for the sake of "the Jews", but for the merchants slowly going bankrupt.

While much of Bethlehem was told it could open for three hours in the morning, from nine to twelve; the district nearest to Jerusalem was categorised by these budding administrators of the future Palestinian state as being part of the big city. Those shops would open from three to six in the afternoon. And it was observed: strictly.

Belatedly, the army has learned the lesson. Instead of going round the closed shops every day, forcing them open – literally bashing heads against the strikers – the soldiers are now standing back and leaving them alone. General Ehud Barak, the army's Deputy Chief of Staff, admitted as much yesterday. "After some discussions we decided to stop it (the strike breaking) for the time being; leave the shopkeepers to decide for themselves when they are going to open," he said.

Where the army does act, albeit not very effectively, is to try and help Arab strike-breakers get to work in Israel. Yesterday, an Israeli bus was burned out in Hebron when it went to pick up its usual load of day labourers. And, in the Gaza Strip, thick carpets of nails were strewn across main roads against those who had the temerity to defy all other threats.

With its largely Christian Palestinian population, Bethlehem has a somewhat unusual outlook on the unrest, led as it is by their Moslem kinfolk. On the defensive in their own ageing community, against the inroads of militant Islam, the Christians feel they cannot be seen to be less than wholehearted in their support for the cause.

Watching the nightly scenes of tyre-burning and rock-throwing on Syrian television - providing by far the best available coverage of the unrest - one six-year-old girl from a poor Christian family in Bethlehem asked her mother recently why she was not being allowed to join in.

After all, there was no school, her father, a tailor, was not at work, there was nothing to do but fight the Jews.

An Arab looks on as Israeli soldiers patrol the main street in Arab east Jerusalem yesterday during the commercial strike

RABIN TO ACT AGAINST SOLDIERS

Mr Yitzhak Rabin, the Israeli Defence Minister, yesterday promised that soldiers who buried four Palestinians alive in the occupied West Bank would be treated "with all the rigour of the law." A top Israeli army officer also acknowledged that Israel was facing "a widespread, violent uprising...enjoying the support and co-operation of the masses." Maj Gen Ehud Barak, deputy chief of staff, told a press conference that he did not believe events were largely organised from abroad, or that there was a small directing group. He did not expect the unrest, in which 53 Palestinians have already died, to end in the near future.

Britain may open up satellite market

By Terry Dodsworth in London

THE British Government is believed to be on the point of announcing a relaxation of the rules governing satellite communications in the UK.

This follows heavy pressure from the US to liberalise the system.

Mr Phillip Spector, a lawyer working for Pan American Satellite of Connecticut, a company which has been trying to break into the British market, said yesterday that he understood that there was a strong possibility of a loosening of the UK's duopoly arrangements.

His remarks follow a recent meeting between Mr Bruce Smart, under secretary for international trade at the US Commerce Department, and Lord Young, the UK Secretary for Trade and Industry. Lord Young is due to make a statement today.

Under the present structure of telecommunications in the UK, satellite transmission is controlled by British Telecom and Mercury, the two licensed operators who run the links between earth stations and communications satellites.

PanAmSat, which is due to launch the world's first independent intercontinental telecommunications satellite within a few weeks, has so far failed to reach an agreement with either British carrier to link it with UK customers.

Indications of a breakthrough in the impasse came recently in a letter from Mr Clayton Yeutter, the US trade representative, to a US Congressman, outlining his efforts to persuade London to waive some aspects of the UK duopoly system.

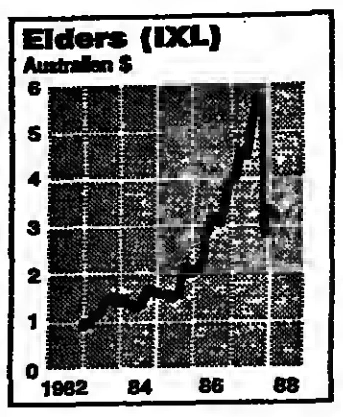
Mr Yeutter said that under the present telecommunications legislation the British Government could classify PanAmSat's transmissions as "specialised services." The Government could then allow direct transmissions to earth stations located on customer premises.

UK lawyers for PanAmSat confirmed last night that they were drafting an application for the US company to transmit specialised services - basically non-public telephone messages - to British customers. It was expected that this would be submitted within the next week, the lawyers said.

THE LEX COLUMN

Too much surplus for comfort

Any talk of post-crash volatility must sound odd these days to anyone trying to grab a living in the London market. The FT-SE's trading range yesterday was 9 points, and 3 points the day before. Volume has plumbed new lows, with fund managers evidently paralysed between high and low interest rates, rising and falling currencies and inflation versus recession. It cannot go on like this, but with the market having only shakily recovered the ground it lost in a single session ten days ago, the suspicion is that the next move must again be down.



PSBR

The gilt market's frosty reaction to the embarrassingly large PSBR surplus for January suggests it is making up the rules as it goes along. In its confidence that the next move in interest rates will be up, it is simply re-interpreting any signs pointing the other way. The new wisdom is that a big PSBR surplus is bad for gilts because it may lead to swollen private sector borrowing. The market perversely appears to rank more highly the possibility that poor bank lending figures on Thursday could push up interest rates, than the certainty that Government will need to sell considerably less gilts this year than previously expected. Even if – as is debatable – the corporate sector did in fact borrow from the bank in January to pay its tax bill, there is no obvious reason why this should be inflationary.

A second justification given for the market's refusal to celebrate appears equally thin. The Chancellor, it is argued, may be tempted on the basis of the PSBR figures to give away more than the £3.5bn in tax cuts believed to be consistent with balance of payments discipline, and this would hurt sterling and mean higher interest rates. However, Mr Lawson presumably is well enough aware of the economic constraints on his budget sums not to change course as a result of one monthly number. Rather than end up projecting a budget surplus, after all, he could always put a conservative gloss on his revenue forecasts, with the happy effect that next year's targets could be beaten without trying.

Elders IXL

One of the biggest problems about following Elders IXL is that it keeps on changing shape. Six months ago, the grand plan was to capture the heady valuations of a worldwide bull market by floating off significant stakes in the group's brewing, agribusiness and finance operations. October 19th put paid to all that, and the proposed sale of the BHP stake is the most visible sign of Elders' present intention of reducing its dependence on equity accounting the profit of a myriad of affiliates. The idea now is to reshape itself into a group reliant on the underlying operating profits of some mature businesses, of which brewing is now far and away the biggest example.

The sale of the BHP stake, and the proposal to remove the Courage pubs in the UK from Elders' balance sheet by injecting them into a joint venture, means that the group's gearing will soon have been reduced to negligible levels, clearing the way for another major move. Unlike the rival Bond Corporation, which has decided to take on the major US brewers on their home turf, Elders' seems intent on expanding its presence in the UK.

Standard Chartered

Standard Chartered has been trying to sell its prize asset, Union Bank, for such a long time that the terms of the sale caused scarcely a ripple in its share price. While the $750m price tag is far less than could have been expected six months ago, it values Union at 1.3 times book value and 13.3 times 1986/87 earnings – a fair price, given that Standard Chartered has been looking like a forced seller, and that the market for medium-sized US regional banks has lost much of its froth since the October crash.

It has been clear for some months that Standard Chartered had to do something dramatic to repair its balance sheet ratios, and the Union Bank sale was the most obvious solution, even though it cut away one of the most important parts of the group's business. Together with the recent sale in Arizona, it adds a relatively meagre £77m to Standard's shareholders' funds, and the shrinkage of more than a fifth in Standard's group balance sheet is the main reason for the 70 basis points improvement in the equity to asset ratio.

Nevertheless, it is a measure of Standard's continuing problems that even after the sale of such a massive part of its business, its equity to asset ratio of around 4 per cent is still substantially below average. While the group has won a temporary breathing space, it still needs to raise significant extra capital. A rights issue is the most likely long-term solution, and could have the added advantage of diluting the interests of some of Standard's bigger shareholders, whose presence on the register adds to the uncertainty about the group's future.

Yorkshire Bank

When a bank earns a 39 per cent return on shareholders' funds, the suspicion must be that it is gouging its customers either coming or going. Neither seems to be the case at Yorkshire Bank – or to be more precise, it is exploiting them no more than anyone else in the cartel-bound UK market.

Yet when it comes to earnings growth, the Leeds-based bank leaves its larger competitors in the dust. Partly it has the stubborn loyalty of the Yorkshireman to thank for this; the most strikingly profitable banks in the world are those with a strong community base. And the bank works hard to retain that loyalty – efficient, flexible and friendly, it is everything the clearers are not.

But its extraordinary profitability is less a small-town wonder than a demonstration of the joys of running a domestic banking operation in the UK. Indeed, next to the 50 per cent earnings growth registered by the clearers on their domestic operations in the first half year, Yorkshire Bank's 35 per cent pre-tax profits rise looks less stupendous. Even so, it must be true that the bank could turn in an even better performance if the larger banks which own it would let it leave the nest. Small chance of that, though: greed may be a stronger emotion, but fear is stronger again.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	14	57	Dubrovnik	S	12	[illegible]	Malta	C	14	57	Rhodes	S	15	[illegible]
Algiers	S	21	70	Edinburgh	F	7	45	Manchester	F	7	45	Rio de Jo	C	[illegible]	[illegible]
Amsterdam	C	6	43	Faro	S	11	52	Manila	C	30	86	Rome	S	14	57
Athens	C	7	45	Florence	S	15	[illegible]	Melbourne	-	-	-	Salzburg	S	7	45
Bahrain	R	22	72	Frankfurt	S	4	39	Mexico City	-	-	-	San Francisco	F	[illegible]	[illegible]
Bangkok	S	32	90	Funchal	F	16	61	Miami	S	24	75	Seoul	S	-3	27
Barcelona	C	11	52	Geneva	Fg	2	36	Milan	S	9	48	Singapore	C	31	[illegible]
Beirut	R	13	55	Gibraltar	F	13	55	Montreal	S	[illegible]	[illegible]	Stockholm	C	2	[illegible]
Belfast	C	5	41	Glasgow	F	7	45	Moscow	C	-2	28	Strasbourg	S	[illegible]	[illegible]
Belgrade	F	6	43	Guernsey	S	7	45	Munich	S	10	50	Sydney	S	[illegible]	73
Berlin	C	6	43	Helsinki	C	1	34	Nairobi	-	-	-	Taipei	F	18	64
Biarritz	S	14	57	H. Kong	C	18	64	Naples	S	12	54	Tangier	F	[illegible]	[illegible]
Bombay	-	-	-	Innsbruck	[illegible]	[illegible]	[illegible]	Nassau	S	27	[illegible]	Tel Aviv	S	[illegible]	[illegible]
Bordeaux	S	12	54	Inverness	F	7	45	New Delhi	S	23	73	Tenerife	F	17	[illegible]
Brussels	C	6	43	Islamabad	F	21	70	New York	C	8	47	Tokyo	C	[illegible]	[illegible]
Budapest	C	5	41	Istanbul	F	[illegible]	[illegible]	Nice	S	[illegible]	[illegible]	Toronto	C	[illegible]	[illegible]
B. Aires	C	28	82	Jakarta	[illegible]	[illegible]	[illegible]	Nicosia	S	14	57	Tunis	S	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Readings at mid-day yesterday
C=Cloudy D=Drizzle F=Fair Fg=Fog H=Hail R=Rain S=Sun Sn=Snow T=Thunder

Vranitzky to stay on as Chancellor

Continued from Page 1

captured British servicemen, including six named commandos.

Mrs Thatcher stressed that the British Government had taken "the allegations concerning Mr Waldheim 'very seriously, particularly those concerning British servicemen."

But she added that a thorough investigation of British official records had found no evidence to substantiate the allegations, though the Government remained ready to examine all new information.

Both the tone and timing of Mrs Thatcher's answer are significant considering increased cross-party concern at Westminster over Mr Waldheim's record and position.

They also contrast with the previous desire of the Government to stay out of the controversy.

It was confirmed yesterday that some of the relevant official files had been destroyed under the under the 30-year rule for the release of official papers.

The earlier inquiry failed to establish that Mr Waldheim interviewed the six soldiers after they were captured during a raid on a Greek island.

The commission found the initial "W" on transcripts of interviews with the commandos, and suggested that Mr Waldheim must have known the eventual fate of those whose cases he dealt with.

Political climate cools, Page 2

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SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Wednesday February 17 1988

Elders plans to cut debt with £1.2bn UK pub deal

BY LISA WOOD, PAUL CHEESERIGHT AND CHRIS SHERWELL IN LONDON

ELDERS IXL, the Australian group best known for its Foster's lager, is planning to put its 5,000 Courage public houses in the UK, which are valued at £1.2bn ($2.1bn), into a joint venture with a property company.

The move would be a radical break with established practices among British brewers who have not sought to capitalise on the asset value of their properties on this scale before.

Mr Andrew Cummins, Elders' director of strategy, yesterday declined to name the property company or how much debt the joint venture would remove from Elders' balance sheet. Industry suggestions were that an Australian property company could be the partner.

This latest proposal follows Elders' abortive plan to wrap up Courage's estate of pubs into a separate £1bn company and float about half of it on the London stock market, producing a cash injection for Elders which was planning a complex restructuring plan.

The flotation and the restructure – intended to increase the group's market value – was abandoned after the stock market crash last October. Market conditions hid divisions among Elders' advisers about the valuation of the pubs.

Elders, which also has finance and agribusiness interests, yesterday reported an 83 per cent jump in net profits to A$272.1m for its first half to December.

It was among a batch of leading Australian companies which produced figures showing strong earnings growth during a period which spanned the stock market collapse last October.

Elders was at pains yesterday to stress its own strong balance sheet and solid businesses. It said that despite the crash the market value of its share portfolio exceeded book value by as much as A$243m.

Mr Cummins said: "The joint venture would be like a sale and leaseback. Under the proposed arrangements the brewery would pay the property company a market rent for the public houses.

Ahead of the news, shares in Elders rose 2 cents in Sydney to A$3.02, up 10 cents this week.

O & Y seeks higher Santa Fe stake

BY OUR TORONTO CORRESPONDENT

OLYMPIA & YORK Developments, the Canadian property and resources group controlled by the Reichmann family of Toronto, is seeking almost to double its stake in Chicago-based Santa Fe Southern Pacific by means of a US$245m tender offer.

The company is offering $17.60 each for up to 14m shares in the US railway, energy and property group. This would make it Santa Fe's largest shareholder, raising its stake to 19.9 per cent from 10.6 per cent at present and overtaking the interest of about 15 per cent held by Mr Michael Dingman's Henley Group.

While O&Y's offer falls well below Santa Fe's current share price of $45¾, it is contingent on payment – due to be made yesterday – by the US company of a previously-announced $4.7bn special dividend as part of a large-scale restructuring.

After the payout, the Santa Fe share price is expected to fall steeply. A straight subtraction of the dividend from the current share value would give a price of $15¾, although O&Y's tender offer – which expires at midnight on March 13 – may effectively have set the floor price.

O&Y, which is set to receive some $360m in cash as its share of the dividend windfall, recently agreed to support Santa Fe's restructuring plan in return for two seats on the 17-member board.

California-based Henley, by contrast, opposes the plan and is attempting to unseat board incumbents by soliciting proxy votes for its own nominees.

Bear Stearns to expand despite crash

BY ANATOLE KALETSKY IN NEW YORK

BEAR STEARNS, the large Wall Street brokerage firm, made net profits of $36.8m or 40 cents a share in the three months to January 29. This represented a decline of 38 per cent on the same quarter a year earlier, when Bear Stearns made $59.6m or 70 cents.

Despite the difficult business environment on Wall Street, Bear Stearns said it was planning to expand its operations.

Mr Alan Greenberg, chairman, said he had "never been more optimistic about the future of the firm."

The company was employing about the same number as it did on October 1. He expected "the number to increase materially in the next 30 days."

In the previous quarter, which included Black Monday, Bear Stearns made a pre-tax loss of $4.8m, after suffering $96m in losses from its arbitrage and options business during the crash.

J&J buys Playtex assets in $726m deal

By Roderick Oram in New York

JOHNSON & JOHNSON, a leading US maker of health care products, has agreed to pay $726m for most of the assets of Playtex, the personal products and women's underwear group taken private in a leveraged buyout 14 months ago.

The Family Products division it will buy makes Playtex tampons, gloves and disposable nursers and Tek toothbrushes. Johnson & Johnson said the acquisition would bolster its consumer products group.

After the disposal, Playtex Holdings, formed in the leverage buyout, will concentrate on its apparel operations which includes bras, girdles and panties and on its Jhirmack hair shampoos and conditioners.

The apparel business had worldwide sales and operating profits last year of about $300m and $45m, respectively, the company said.

Mr Joel Smilow, Playtex Holdings' chief executive, said both divisions had been profitable during the company's first year. Overall, earnings were "20 per cent in excess" of expectations.

"There was absolutely no pressure to sell the Family Products division and the idea for the transaction came from Johnson & Johnson," Mr Soulow and his colleagues bought Playtex for $1.25bn in December 1985. It had been part of Beatrice, the huge Chicago food and household wares group which had itself been taken private shortly before.

Simultaneous with its own buyout, Playtex sold for $360m its cosmetics and fragrances operations to Revlon, the US cosmetics company owned by Mr Ronald Perelman, the corporate raider.

Mr Smilow and his colleagues financed the net buyout price of Playtex of $900m with $740m of debt.

The debt load had been subsequently cut to $630m and could be paid off entirely with the proceeds of the disposal.

US CLONE MAKER CLAIMS PROGRAM WILL MIMIC PS/2 PERSONAL COMPUTER

Compaq challenges IBM lead

BY LOUISE KEHOE IN SAN FRANCISCO

COMPAQ COMPUTER, the leading US maker of IBM-compatible personal computers, will today mount a new challenge to IBM's latest Personal System/2 personal computers with the announcement of new software and performance claims to negate the advantages of IBM's technology.

Unlike IBM's earlier personal computers, which were built using standard components, the PS/2 line launched last April incorporates proprietary IBM technology, which at first seemed to present a problem to Compaq and hundreds of other makers of IBM-compatible personal computers.

In addition, IBM adopted a new operating system – the program that controls the inner workings of the computer.

The OS/2, created by Microsoft, the largest US personal computer software company, allows high-power personal computers to perform several tasks concurrently and greatly increases the storage space allocated to application programs, thus making more complicated programs feasible.

At a news conference scheduled to take place in New York today, however, Compaq will announce the introduction of its version of the OS/2, just two months after IBM began shipments.

Compaq will also claim that applications programs designed to work with the new operating system will perform faster on its "industry standard" computers than on IBM's PS/2 machines. Standard benchmarks of computer performance give the Compaq computers a 17 to 62 per cent advantage over equivalent IBM personal computers, Compaq says.

Compaq's announcement undermines many of the performance advantages that IBM has claimed for its PS/2 product line. Compaq also appears to have disproved the widely held theory that it is necessary to "clone" IBM's proprietary "Microchannel" architecture to match PS/2 performance.

Unlike most clone makers, who have been trying to find ways to emulate IBM's proprietary technology, Compaq has taken its own route to higher performance. This can be done, the company appears to have proved, without sacrificing compatibility.

Compaq's announcement could have major ramifications throughout the personal computer industry. Other makers of IBM compatible computers may now switch their focus from producing slavish copies of IBM products towards improving the performance of their existing designs. Some clone builders are likely to begin efforts to clone Compaq's personal computers, according to industry analysts.

Tandem buys network maker for $260m

TANDEM COMPUTERS, the US manufacturer of fault-tolerant computers, yesterday announced it had signed a merger agreement with Ungermann-Bass, an early leader in the field of computer networks, writes Our San Francisco Correspondent.

Tandem will buy Ungermann-Bass for about $260m, or $12.50 per share, and the networking company will become a wholly-owned subsidiary of Tandem.

Ungermann-Bass' share price rose sharply on news of the acquisition from Friday's closing price of $8½ to $12⅛ in yesterday's trading. Tandem's share price, which fell heavily last month on news of lower than anticipated sales, remained steady yesterday at around $18½.

Mr James G. Treybig, Tandem's president and chief executive, said a growing number of Tandem customers were linking their systems to local area networks. "Ungermann-Bass offers a wide range of communications products that complement ours."

The move was applauded by industry analysts who said that the acquisition of Ungermann-Bass' networking expertise and products would boost Tandem's ability to address the trend toward enterprise-wide and local networking which is becoming increasingly important in the banking, airline, telecommunications and other industries that Tandem supplies.

Tandem and Ungermann-Bass have worked closely together on several significant projects in the past, Mr Treybig said. "The success of these makes us confident that the merger will benefit us both."

Tandem had 1987 sales of more than $1bn, while Ungermann-Bass reported sales of $143m for last year.

Campeau raises Federated bid

BY DAVID OWEN IN TORONTO

CAMPEAU, the Canadian property group, yesterday raised its offer for Federated Department Stores of the US to $66 a share or $5.9bn, after talks with the Cincinnati-based retailing chain's representatives.

The Toronto property and retailing group had previously proposed making a merger offer at $61 a share or $6.5bn.

The latest offer, together with a form of merger agreement, was to be presented for consideration at Federated's board meeting yesterday, Campeau said.

Federated had previously insisted on "satisfactory evidence of financing commitments" as a pre-condition for considering Campeau's $61 bid.

This was produced last week when the company, controlled by Mr Robert Campeau wrote to Mr Howard Goldfeder, Federated chairman, detailing financing commitments.

These included $1bn in equity and $300m in subordinated debt, with the balance to be obtained through bank financing.

Bank of Montreal, Security Pacific National Bank and Olympia & York Developments were among those offering support to Campeau.

Yesterday Campeau said that, if Federated shares were not accepted for payment by April 18, the offer would be increased through the payment of interest at 7 per cent on $66 from that date to the date the shares are accepted for payment.

Small increase at Coca-Cola

By James Buchan in New York

COCA-COLA, the world's largest soft drinks company, reported only a 7 per cent increase in fourth-quarter net income from operations to $193m or 52 cents a share.

A 6 per cent rise in soft drinks volume and a boost to overseas profits from a weaker dollar were hit by a drop in profits from fruit juice and film-making.

Earnings from operations for 1987 rose 17 per cent to $916m or $2.43.

SIEMENS

Information for Siemens shareholders

International business expands

During the first quarter of the current financial year (1 October to 31 December 1987), Siemens achieved a further marked increased in international orders and sales. However, business volume in Germany was affected by the slowdown in the economy. The net profit margin of 2.5% matched the average over the past financial year.

New orders

During the period under review, Siemens – i.e. Siemens AG and its consolidated domestic and foreign companies – recorded new orders worth £4,544m, equalling last year's levels. The 10% drop in German domestic orders was largely the result of including a major contract for a district heating plant in the first quarter of last year. Without this significant contract, domestic orders were only slightly down on last year's first-quarter figures. This marginal reduction was also influenced by a weaker German economy and intensified price competition. Despite the lower dollar, however, Siemens attracted 8% more orders abroad. After allowing for the effect of translating U.S. dollars into DM, the growth in international orders was several percentage points higher.

in £m	1/10/86 to 31/12/86	1/10/87 to 31/12/87	Change
New orders	4,560	4,544	0%
Domestic business	2,116	1,912	−10%
International business	2,444	2,632	+ 8%

Sales

Siemens worldwide sales increased 4% to £3,791m. Here, as with orders, sales were stronger abroad (+6%) than in Germany (+3%).

in £m	1/10/86 to 31/12/86	1/10/87 to 31/12/87	Change
Sales	3,628	3,791	+ 4%
Domestic business	1,756	1,802	+ 3%
International business	1,872	1,989	+ 6%

Orders in hand

Because new orders were much higher than total sales, orders in hand rose by 2% to £17,939m.

in £m	30/9/87	31/12/87	Change
Orders in hand	17,586	17,939	+ 2%
Inventories	7,884	8,144	+ 3%

Employees

The number of employees in Germany and West Berlin was slightly reduced, while employees abroad marginally increased due to the inclusion of those working in recently acquired companies. At the end of December 1987, Siemens employed a total of 358,000 people worldwide (excluding trainees and student workers). Employment costs rose by 1%.

in thousands	30/9/87	31/12/87	Change
Employees	359	358	0%
Domestic operations	229	227	− 1%
International operations	130	131	+ 1%

	1/10/86 to 31/12/86	1/10/87 to 31/12/87	Change
Average number of employees in thousands	360	359	0%
Employment costs in £m	1,890	1,913	+ 1%

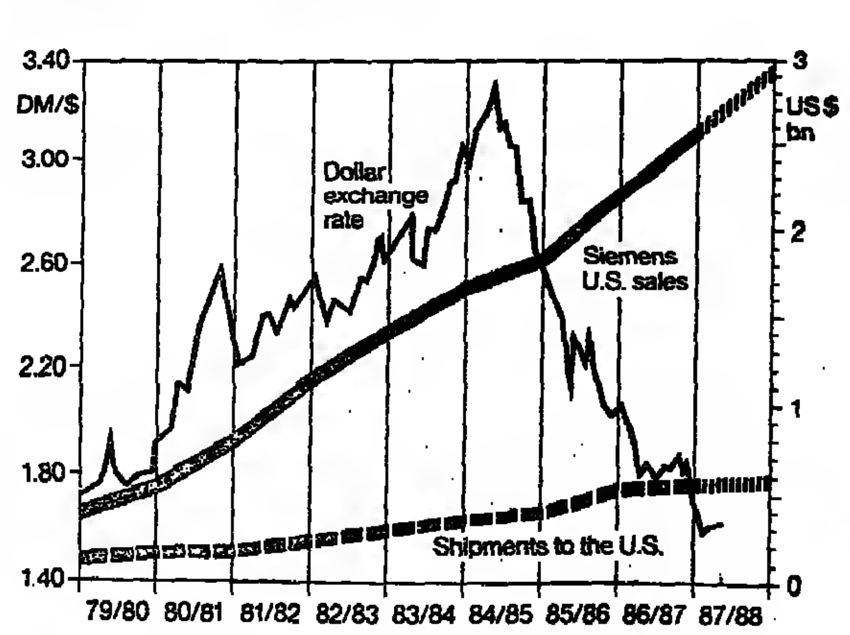
Capital spending and net income

Capital expenditure and investment for the first three months of the current financial year reached £226m. This decline (−37%) was largely due to the steep fall in acquisitions of companies abroad. Expenditure on tangible assets was also down compared with the same period last year when there was an accumulation of additional fixed asset items. Net income after taxes dropped 4% to £96m. The net profit margin was down from 2.8% to 2.5% – the same as for the 1985/86 financial year.

in £m	1/10/86 to 31/12/86	1/10/87 to 31/12/87	Change
Capital expenditure and investment	340	226	−37%
Net income after taxes	100	96	− 4%
In % of sales	2.8	2.5	

All amounts translated at Frankfurt middle rate on 31/12/1987: £1 = DM 2.960.

Siemens sales in the U.S.



Expansion of U.S. business

Since the early 1980s, Siemens has strengthened its position in the USA, the world's largest electrical and electronics market. U.S. sales have doubled within the last four years. From the very start the aim was to establish a firm foothold in the country by setting up local development and production facilities. With 47 manufacturing plants and over 300 sales and service locations, Siemens is represented in almost every state in the country.

There are already 27,000 employees on the payrolls of Siemens U.S. companies. The local value added content now accounts for approximately 80% of total U.S. sales of around $3 billion. On the other hand, 20% of the goods produced in Siemens U.S. factories are exported. This strategy serves both the American economy and the company: it does not strain the U.S. trade balance, and it ensures that Siemens is highly resistant to any changes in the dollar exchange rate.

Siemens AG

In Great Britain: Siemens Ltd.

Siemens House, Windmill Road, Sunbury-on-Thames, Middlesex, TW16 7HS

INTL. COMPANIES

Telefonica links up with Italian telecom group

BY JOHN WYLES IN MILAN

TELETTRA, THE Fiat group's telecommunications subsidiary, and Telefonica, the Spanish national telephone company, have agreed to join forces through an exchange of shareholdings aimed at strengthening their presence in the European markets.

The move will give Telettra a controlling 90 per cent stake in its Spanish joint venture with Telefonica, Telettra Espanola, in which it holds 49 per cent. Telefonica will take a 10 per cent stake in Telettra of Italy, which could rise to 14 per cent in three years if, as envisaged, the Fiat subsidiary takes full control of its Spanish namesake.

The ahareholdinga to be exchanged will be of equal value – no cash will change hands.

The move marks Telettra's first international partnership initiative since Fiat withdrew from the projected joint venture with Italtel, the Italian state-owned telecommunications equipment manufacturer. The proposed new company, Telit, was to have been the vehicle for Italian participation in the wider restructuring process now taking place among European telecommunications manufacturers.

Italtel is still discussing possible joint ventures with several European companies while Fiat said that the agreement with Telefonica was part of Telettra's "strategy for consolidating its position on the European market, in view of the total removal of all European Community barriers in 1992."

In Telefonica, which is 30 per cent state-owned, Telettra has a partner ranking ninth in the world league of telephone companies with an annual turnover of Pta560bn ($4.85bn) and 10m telephone lines in service.

Telettra's turnover last year reached L660bn ($525m), putting it eighth among world manufacturers of transmissions and radio bridging equipment. Its Spanish namesake was set up as a joint venture in 1971 and now has 2,000 employees in three plants producing a turnover of L210bn last year.

According to Fiat, the Spanish company develops its own technology which is "complementary" to the Italian parent.

Framatome bids for Télémécanique

BY GEORGE GRAHAM IN PARIS

FRAMATOME, the French nuclear power plant builder, has launched its long-expected counterbid for Télémécanique, the industrial automation company which is under attack from the Schneider group.

The new bid, of FFr4,150 a share, 6.4 per cent higher than Schneider's offer, values Télémécanique at FFr6.5bn ($1.14bn) and has the support of its board.

Frsmatome, which is controlled by Compagnie Générale d'Electricité with 40 per cent and the French nuclear energy authority with 35 per cent, has already acquired indirect control of more than 9 per cent of Télémécanique through Cofitel, the holding company. Cofitel alao holds warrants which could give it control of 17 per cent of Télémécanique.

Mr Didier Pineau-Valenciennes, chairman of Schneider, has announced that he plana legal action to block the holding of Cofitel. His own group has announced that it has acquired 12 per cent of Télémécanique.

The decline of orders for new nuclear power plants has forced Framatome to look for ways of diversifying. The group made profits of about FFr900m last year and has accumulated cash reaourcea of nearly FFr7bn, but expects to see profits beginning to decline from 1990 or 1991.

Framatome has already bought a stake in Souriau, the French electrical equipment manufacturer, and hnd begun talks with Télémécanique before the Schneider bid.

GO to take 20% stake in CEP

BY PAUL BETTS IN PARIS

GENERALE OCCIDENTALE (GO), the diversified French company controlled by Compagnie Génénle d'Electricité (CGE), is to acquire a 20 per cent stake in CEP Communication, a fast-growing publishing concern, for about FFr600m ($60m) as part of a wider deal to create the aecond largest book publishing group in France after Hachette.

The new venture, called Groupe de la Cite, will combine the book publishing assets of GO and of CEP. It will have sales of nbout FFr5bn and employ more than 6,000 staff. GO and CEP will jointly control a holding company, which in turn will control 70 per cent of the group. The balance of the shares will be held by the public, with Groupe de la Cite listed on the Paris bourse.

The venture will merge the reference and educational book divisions of the two groups, including the Larousse, Nathan, and Bordas subsidiaries, as well as general fiction and non-fiction interests, including Presses de la Cite and Plon and several paperbnck labels.

However, it will not at this stage include magazine interests. GO controls the weekly news magazine, L'Express, while CEP is n leading publisher of technical and business journals.

GO will acquire a stake of 20 per cent in CEP through a CEP capital increase. The stake will eventually rise to about 23 per cent, making GO the second largest shareholder in CEP after Havas, the media and advertising group, whose stake in CEP is to be diluted from 38.5 per cent to 35 per cent.

The holding company, which will control Groupe de la Cite, will be presided over by Mr Ambroise Roux, the chairman of GO and a former chairman of CGE. But Mr Christian Bregou, chairman of CEP and the architect of the publishing group's rapid expansion during the last 12 years, will have mnnagement control.

Both Mr Roux and Mr Bregou emphasised their common strategy to create a new force in French publishing with the necessary scale to compete in the international market. Mr Roux became chairman of GO last year following CGE'a acquisition of Sir James Goldsmith's controlling stake in the company for FFr1.5bn.

Mr Roux claimed, however, that he had no ambition to expand GO's interests in the general newspaper bualness, although he had no intention of shedding L'Express.

But the resignation of Mr Bruno Rohmer, the chief executive of Presses de la Cite and L'Express, added a sour note to the friendly merger. Mr Rohmer had been brought in by GO about six months ago and had previously managed Nathan and Larousse at CEP.

Nokia plugs into electronics

BY OLLI VIRTANEN IN HELSINKI

HE HAS been called the "turbo executive" for years, but only in the past six months has Mr Kari Kairamo, the chief executive of Nokia, shown his true speed.

Since August 1987, Finland's largest stock market listed industrial company has grown by 60 per cent after three big acquisitions in Europe. The group, traditionally referred to by analysts as "diversified," is now distinctly "electronic."

Nokia's net sales will top FM22bn ($5.5bn) this year. About two-thirds will come from consumer electronics, telecommunicatioos and information systems. The rest is divided between cables, cable machinery, paper, power, chemicals, rubber and flooring businesses.

Nokia's rapid growth has taken it deep into the European market. So much so that its data systems headquarters was recently moved to Stockholm; consumer electronics are soon likely to be run from West Germany; while the top management of the cable mnchinery division, as well as the foreign financing subsidiary, have been moved to Switzerland. Half the group's 44,200 employees are now based outside Finland.

Mr Kairamo's most recent shopping spree began with the acquisition of Oceanic, a French television manufacturer, in August 1987. Four months later, in December 1987, Nokia bought the consumer electronics division of Standard Elektrik Lorenz of West Germany.

Given that Nokia only entered the television business in February 1984, when it bought Luxor of Sweden and Finland's Salora, its rise to third place in Europe behind Philips and Thomson, with sales of $1.9bn and production of 2.5m sets, is rapid by any standard.

The third big acquisition – the purchase of 80 per cent of the data systems division of Ericsson of Sweden – gave a significant boost to Nokia Information Systems, a division of the group which had previously failed to establish a solid foothold abroad. The division will have sales of $1.2bn in the Nordic area as well as in Britain and Central Europe.

Nokia yesterday reported a 75 per cent increase in profit before tax and minority interests to FM1.22bn ($298m) for 1987 following a strong advance by the electronics division. Net sales topped FM14bn, a rise of 17 per cent.

Profits from electronics practically donbled to FM670m helped by atrong acquisition growth. Electronics accounted for 65 per cent of total Nokia turnover last year.

Nokia paid FM1.05bn for the Ericsson division. The SEL deal was estimated to cost a similiar sum while the acquisition of Oceanic was worth somewhat less.

Nokia's total investments in 1987, according to Mr Kairamo, totalled FM3.2bn, including FM800m in research and development and training and marketing. The corresponding figures for 1988 will be about FM4bn and FM1bn.

In another strategic move late last year, Nokia joined forces with AEG and Alcatel to form a consortium for creating a pan-European cellular mobile telephone system. Nokia regards this sector as potentially one of its most exciting growth areas.

As Mr Kairamo explains it, Nokia's strategy dates back to the early 1970s, when the oil crisis hit the Finnish company hard. "We had too many business sectors, and we were in danger of auffocating as our resources were thinly spread."

Now Nokia has two clear alms: to spread international coverage and concentrate on growth sectors. The current emphasia on large acquisitions is only coincidental, says Mr Kairamo. Nokia is constantly looking for new targets, and accordingly he claims that the three deals just happened to mature around the same time.

Mr Jorma Ollila, Nokia's finance director, concedes that the acquisitions initially will lower group returns on investment. Still, Mr Ollila regards Nokia's financial position as sound. At the close of 1987 group cash reserves were "very close" to FM3bn at a time when the Oceanic denl had been financed, but with payment for the SEL and Ericsson deals still due.

Since then, Nokia's ahareholders have approved a combined rights and bonus issue which will raise FM800m. The group is also launching a DM250m ($147m) bond issue, the proceeds of which are to be used for the long-term financing needs of the SEL unit, now renamed Nokia-Graetz.

Mr Ollila points out that Nokia is also in the middle of a divestment programme. It has disposed of several subsidiaries, and has sold a minority holding in a Finnish pulp mill for FM300m.

Elders' net earnings climb 83%

Leading Australian companies which produced their latest results yesterday showed strong growth, with little evidence of troubles arising from last October's stock market collapse. This is in sharp contrast to the heavy losses reported on Monday by Mr Robert Holmes à Court's Bell companies. CHRIS SHERWELL reports from Sydney

ELDERS IXL, the Australian brewing, agribusiness and finance group, said yesterday it expected good full-year results after reporting an 83 per cent surge in net earnings and a 61 per cent rise in revenues for the six months to December.

The group's interim figures showed a rise in net earnings to A$272.1m (US$193.7m) from A$148.7m in the same period of 1986. Sales increased to A$7.6bn from A$6.83bn.

At the pre-tax level, Elders' profits showed an even more dramatic 114 per cent increase, to A$322.6m. The higher tax toll of A$159m compared with just A$41m a year earlier.

The company declared a one-for-four bonus issue and foreshadowed an interim dividend of 9.5 cents (unfranked for tax purposes) on the increased capital.

In an accompanying statement, the directors said Elders was well-positioned for a good full-year result in spite of an uncertain outlook.

In agribusiness it was expecting the best outlook in years for beef and wool, its main products, and an improved outlook for grain.

The brewing division would complete a "useful" year with full-year contributions from Courage in the UK and Carling O'Keefe in Canada. There would be a solid performance from Carlton United Brewing in Australia.

The group said the finance group had increased its provisions to cover all potential exposures in the wake of the stock market collapse.

Elders Investments, the Hong Kong investment arm, had suffered some book losses but had maintained a strong cash position.

The market value of Elders IXL's share portfolio exceeded book value by a margin of A$243m.

Western Mining income soars

A SPECTACULAR increase in interim profits was reported yesterday by Western Mining Corporation, the large Australian gold and nickel mining group, and shareholders reaped some of the benefits.

Figures for the six months to December showed group operating profits had risen fourteen-fold to A$98m (US$69.7m). Improved earnings at associated companies lifted equity-accounted profits almost six times to A$142.3m.

Even after abnormal and extraordinary items, the profit figure was A$83m, compared with A$20m in the same period of 1986. Revenues were up 34.5 per cent to A$428.7m.

The company announced a proportionately increased interim dividend of 10 cents, which compares with 2.46 cents in the previous period after adjusting for a bonus issue.

Western Mining said sales of gold had risen 29 per cent to almost 231,650 oz, compared with 179,770 oz. Prices obtained were up 7.8 per cent in Australian dollar terms, but operating costs per ounce of gold sold were up by a greater margin of 18.6 per cent.

Sales of nickel increased 24 per cent to 24,820 tonnes from 20,060 tonnes. Average prices were 22 per cent higher in Australian dollar terms (36 per cent in US dollar terms), while operating costs per tonne sold were down 4.6 per cent.

An accounting change meant a total of A$30.7m was written off or provided for in exploration expenditures, compared with only A$11.5m in 1986.

The main contribution to the increased profit of A$44.3m from associated companies came from Alcoa, the aluminium producer.

Among the extraordinary items, Western Mining said it made a profit of A$150m on its sale of shares in Kalgoorlie Lake View and Gold Mines of Kalgoorlie, now both part of Mr Alan Bond's gold empire.

But it also wrote off A$138.6m in goodwill when Hill 50 Gold Mine became a subsidiary. The inclusion of Hill 50 production, together with higher levels of production at other mines, lies behind the increase in Western Mining gold sales.

The company said the outlook was favourable for gold, nickel and aluminium. But it added the second-half result would depend on unpredictable movements in metal prices and exchange rates.

Mr Hugh Morgan, managing director, told a press conference that the company had A$600m cash reserves and was seeking acquisitions – suggesting that these might be abroad.

"We are very large here in Australia. We want a balance. We want to gain a spread of interests without losing our capacity to respond to local opportunities," he said. This followed the purchase of four North American gold properties for A$500m.

●Bougainville Copper, which produces copper and gold in Papua New Guinea, more than doubled net profits last year to 93.6m kina (US$103.4m) from 45.2m kina, Our Financial Staff adds.

It said the improvement, which came on revenue of 415.4m kina compared with 342.7m kina, "is attributed to the high metal prices that prevailed in the latter half of the year." Bougainville, 53.6 per cent owned by CRA of Australia, boosted its total dividend for 1987 to 23 toea per share from 11 toea.

●Placer Pacific, the Canadian-controlled operator of the Kidston gold mine in Queensland, lifted net profits 5.4 per cent to A$45.04m last year compared with A$42.73m, in spite of a decrease in turnover to A$142.3m from A$149.1m.

The result was aided by an increase in other income to A$12.2m from A$3.4m and a reduced interest bill at A$3.9m against A$10m. No dividend has been declared.

●Central Norseman Gold showed an earnings setback in its latest 28-week accounting period to January 12, with net profits down 41 per cent to A$7.43m from A$12.62m. Sales dipped to A$34.2m from A$37.8m. The interim dividend is being cut to 2 cents a share compared with an adjusted 3.75 cents.

Mid-term surge for Bond group

BOND CORPORATION, the brewing, media and property group controlled by Mr Alan Bond, the Perth businessman, yesterday reported net profits of A$109.2m (US$77.7m) for the six months to December, more than double the A$52.6m for the same period in 1986.

Sales were up 46 per cent to A$1.58bn, while other income, at A$89m, was down from A$126m. The net profit figure included a tax credit of A$15.3m, against a tax expense the previous year of almost A$10m.

The Bond figures did not equity account the earnings of associates, notably those in Hong Kong, which will not release results until next month. But they included two months' contribution from G. Heileman Brewing in the US, now a subsidiary.

The profit figure was reported to have included a full provision for a A$7.2m loss on listed investments.

A company statement also said shareholders should not regard the income tax credit as indicative of the tax rate anticipated for the full year.

The group estimated an interim dividend of 6 cents, against 5 cents last time.

Strong UK operation helps boost TNT

A SUBSTANTIALLY increased profit from UK operations has helped TNT, the Australian-based international transport group, to report a 35.5 per cent increase in equity-accounted earnings for the six months to December.

Figures released yesterday showed a group net operating profit of A$102.2m (US$72.7m) against A$75.4m in the same period of 1986. Tax paid was A$71.6m, compared with A$26m.

Group revenues rose 14.7 per cent to A$1.77bn. Including TNT's share of associated companies' revenue, they topped A$2.37bn.

Directors said the substantial increase in pre-tax operating profit supported their view that the full-year figure would be "well ahead" of the 1986-87 outcome.

In a geographical breakdown, they said UK operations had produced "an excellent profit, substantially up on the corresponding period last year."

Elsewhere in Europe, TNT Traco, the Italian express parcels carrier which is now fully owned, also saw a strong rise in profits, while TNT Ipec, which provides a Europe-wide customs-cleared express freight delivery service, was eaid to have had a good half year.

In North America, the other leading contributor to the improved earnings, Canadian operations saw a reduced return but overall results "increased substantially."

TNT Brazil improved profitability but a weakening currency cut after-tax returns by 28 per cent.

In Australasia, TNT said profits had increased strongly, but so too had tax expenses. New Zealand continued to be "a very difficult place in which to operate."

The half-owned Ansett Transport Industries showed good growth but suffered higher taxes. The newly-acquired East-West Airlines would be operating profitably by the end of the year.

Apart from Ansett, the equity-accounted figures included contributions from McIlwraith McEacharn, Union Shipping Group and other joint ventures.

There were extraordinary losses of A$23m, which included costs associated with the disposal of TNT Pilot in the US. Last year's figure was A$17.6m.

A second-quarter dividend of 3.75 cents is to be paid, bringing the total for the first half to 7.5 cents.

Toyota ahead despite falling exports

BY STEFAN WAGSTYL IN TOKYO

TOYOTA MOTOR, Japan's largest car maker, yesterday reported its first increase in interim profits in two years, as the result of a sharp rise in domestic sales which more than offset a fall in exports.

The results reflect the company's success in countering the impact of the yen's rise by cutting costs and increasing sales of higher-cost models.

Pre-tax profits for the six months to December were 23.9 per cent up at Y223.7bn ($1.72bn) on a 6.6 per cent rise in sales to Y3,225bn.

Domestic sales rose 8.8 per cent to 956,000 vehicles, while exports fell 3.3 per cent to 874,000 units, mainly because of lower US sales.

For the year, Toyota forecasts domestic sales rising 8.4 per cent to 1.94m units and exports falling 2.8 per cent to 1.75m.

The company cut foreign exchange losses from Y210bn to Y43bn by using forward foreign exchange contracts and raising US prices.

Although Toyota is the biggeet inductrial investor in Japan, the results show no signs of it suffering from the October plunge in world stock markets. Like most Japanese companies involved in *zaitech*, or financial investments, Toyota invests mainly in the money, bond and foreign exchange markets, rather than equities.

Profits on investments rose to Y56.7bn, in spite of lower interest rates. Surplus funds at the company – sometimes dubbed Toyota Bank – rose to Y1,659bn after an $800m bond issue.

Rustenburg chief resigns to join Gencor

By Jim Jones in Johannesburg

MR BRIAN GILBERTSON, managing director of South Africa's Rustenburg Platinum, the world's largest platinum producer, has resigned and is to join the board of the Gencor mining house.

His position on Rustenburg's board will be taken by Mr Barry Davison, the director in charge of the base metal interests of the Johannesburg Consolidated Investment (JCI) group which controls Rustenburg.

Gencor manages Impala Platinum, the country's second largest platinum mining company.

Mr Gilbertson's resignation appears to form part of a general restructuring of the managements of South Africa's principal mining companies at a time when the mining industry, and particularly the platinum sector, is in a state of flux.

Early last year, Mr Gordon Waddell resigned from the chairmanships of JCI and Rustenburg and left South Africa to return to Scotland.

Separately, Mr Derek Keys was appointed some months later from outside the industry to the chairmanship of Gencor, South Africa's second largest mining house. He has since restructured the group and its management.

During the past two years Rustenburg and Impala have seen their dominant position in the platinum market threatened by new producers.

Three platinum mines are being established by other South African mining companies and two others are being planned. The creation of these new mines coincides with expansion moves by Rustenburg, Impala and Western Platinum, a Lonrho subsidiary.

For many years Rustenburg's policy has been to acquire mineral rights as a means of preventing competitors from entering the platinum business.

That strategy faltered in Lebowa last year when the "homeland" government gave the company the option of developing its mineral rights or losing them.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Jim Bodgener on modernisation plans for Turkey's oldest bank

Wind of change at Ziraat Bankasi

BUREAUCRATIC obfuscation exudes from the grimy, heavy, 1930s-style headquarters of Ziraat Bankasi (Agricultural Bank), next door to the Central Bank in Ankara's Ulus precinct.

Inside, one might expect to find cobwebbed corridors and lethargic clerks bent over massive ledgers.

However true that may have been in the past, Turkey's largest and oldest bank is probably about to experience a blast of rationalisation and modernisation unequalled since its foundation in 1863.

Mr Coskun Ulusoy, 87, the bank'e oew general director, says: "Nothing is done according to the book. My view is that if you're doing banklog, it ehould be clearly banking, period."

On his appolotment last month, Mr Ulusoy immediately halted all fresh credit, ordered investigations into loans of more than TL50m ($45,000), and froze all staff appointments.

He is one of the new breed of young, US-trained specialiets whom Mr Turgot Ozal, the Turkish Prime Minister, is rapidly appointing to replace the old bureaucratic hierarchy.

Like many of the others, his pedigree comes from one of the best edocations Turkey could offer, followed by an academic sojoorn in the US, and high-level experience in a large American bank or company – Citibank in Mr Ulusoy's case – before the call from on high.

Mr Ulusoy was first appointed head of Halk Bankasi foor months ago, where he immediately initiated far-reaching reforms. He has very definite views about the state banking sector.

"It has to overhauled, reorganised and rejuveoated," he says.

If he can help it, Ziraat Bankasi will never again be used to prop up ailing parts of the state sector. The bank's deployment, especially during military rule, to rescue etate-owned banks and companies has saddled it with bad debts that have hampered its performance ever since.

It has also soffered from being an agricultural bank with many small credits outstanding to marginal farmers and other rural borrowers, although Mr Ulusoy says he intends to focus on these more legitimate operations – the bank's original *raison d'être*.

Unlike some other state banks, Ziraat's core is basically sound, and its international creditworthiness is good. A $200m ooe-year export financing syndication closed successfully at the end of December – an exercise repeated every year but one since 1983.

At the end of 1986, its total assets stood at TL5,600bn and its loans at TL2,600bo, of wbich agrieultoral credits amounted to TL1,700bn.

However, profits eame to only TL15.6bn – a poor return in the market considering that the private sector Turkiye Iş Bankasi, about two-thirds the size, notched op profits of around TL35bn in the same year.

Mr Ulusoy is determined one way or another to shed Ziraat's legacy of bad debts. Of the state enterprises it bailed out in the past, he says: "We plan to get rid of them. The bank is not a holding company for industrial garbage."

He faces an uphill task, one which appears to have been overpowering at Anadolu Bankasl for another of the oew breed, Mr Bulent Semiler, 32. His forceful proposals for merging state banks and hiving off

Coskun Ulnsoy: nothing done according to book

tbeir oon-banking operations, perhaps prior to eventual denationalisation, have been well publicised.

Following the re-election of Mr Ozal's Government, Mr Semiler's ideas may be taken up more rapidly with the backing of Mr Yusuf Bozkurt Ozal, State Minister and brother of the Prime Minister, who is responsible for the economy.

Big changes could then be in store for other small-to-medium sized state banks with substantial non-banking holdings, such as Etibank, Denizcilik Bankasi and Sumerbank.

One option could be a tighter grip on new loans: total credits made by state banks in 1987 increased by 90.3 per cent to TL7,600bn compared with 1986 – roughly half of all bank credits in Turkey.

Mr Semilsr was oppointed head of Aoadolo Bankasi in mid-1986 with a brief to turn it around. Despite foreclosing on bad debtors and forays into the property market, its losses increased in 1987 to a reported TL77bo, threotening ths first insolvency of a state bank in Turkey.

In early Janoary, Anadolu was merged with the profitable Emlak Kredi Bankasi in what was widely regarded as a rescue operation, although Mr Semiler still remains at the helm of the merged Turkiye Emlak Bankasi (Konutbank).

He says the merger will make it easier to deal with Anadolo's non-performing loans.

Others are not so sure – and question whether the new young technocrats possess the experieoce required to effect the radical changes needed in the state sector.

Mr Ulusoy dismisses this criticism. Hs draws the analogy of a silversmith making o decoration for a horse-drawn coach, and the young driver of a motor car. Irrespective of the silversmith's experieoce, he cannot drive the car as well as the young driver, he says.

"I can talk today of futures, options, the capital asset pricing model, because I have been trained in them and I have taught them. How many of the old school can explain the relationship between option exercises and the international stock market crash in October?" Mr Ulusoy asks.

At Ziraat Bankasi, credits have started to trickle again. But one of Mr Ulusoy's first priorities is to establish an efficient Informatioo system, unclouded by political considerations.

Clearly, too, there is going to be a big staff shake-out in the near future. "Anybody who doesn't speak a foreign language is no longer welcome in the higher echelons of decision-making," he says.

Optimism over markets

BY GEORGE GRAHAM IN PARIS

SECURITIES REGULATORS from around the world yesterday reaffirmed their faith in the functioning of markets.

At a meeting in Paris, a committee representing 12 leading markets including the US, Japan, the UK, Canada and France, said it remained optimistic over the performance of the world's stock markets during the crash – which it insisted on calling "the October market break."

Mr Paul Guy, secretary general of the committee and chairman of the Quebec Securities Commission, said: "We felt that the markets performed very well. The drop in prices was serious but the markets proved that they could work efficiently."

The group has commissioned a study from the French Commissioo des Opératioos de Bourse to synthesise the experiences in different countries, to analyse the dangers which became apparent during October's crash, and to identify measures that need to be taken.

The report will be completed in June.

The committee is also undertaking a programme aimed at easing the way for multinational debt and equity offerings.

Kodak loan terms alter

BY ALEXANDER NICOLL, EUROMARKETS EDITOR

TERMS FOR Eastman Kodak's $5bn loan to finance the acquisitioo of Sterliog Drug have been adjusted, following confusion over who would bear the costs if banks incurred reserve requirements.

The interest margin above London interbank offered rates is now set at 12½ basis points throughout the loan's three-year life. Originally, it was 10 basis points for the first year and 12½ thereafter.

A Kodak executive said there had been a misunderstanding in the initial documentation.

New invitations were issued making clear Kodak would pay reserve costs. As a sweetener, the margin was increased. Kodak, however, did not expect to use the backstop because it intended to rely on its option to ask for competitive bids.

Kodak said it was pleased with banks' response and expected the loan to be finalised this week.

Credit Foncier's $250m five-year credit has been launched with a 4 basis point facility fee for three years and 5 thereafter. There is no margin over Libor, and utilisation fees are 3 basis points if up to one-third is drawn, 6 if op to two-thirds, and 8 if more than two-thirds.

DnC ousts directors and plans shake-up

By Karen Fossli in Oslo

DEN NORSKE Creditbank (DnC), Norway's largest bank whicb last month announced the resignation of its chief executive following a dramatic slide into the red for 1987, said yesterday that its entire executive board had been replaced.

The bank'e 45-member supervisory board announced the replacement of the executive board chairman, Mr Ragnor Halvorsen, by Mr Jon R. Gundersen, a Norwegian supreme court attorney. The remaining eix board members wero also replaced, by two women and four men.

The management changes coincide with a sweeping shake-up for the bank's balance sheet together with large staff cuts. Mr Harald Arnkvaern, DnC's president who was appointed for an interim period, following the resignation of Mr Leif Terje Loeddesoel, said that DnC staff would be reduced by 300 from aboot 6,000 employees worldwide.

DnC came under heavy fire last month from Norway'e Banking, Insuranco and Exchange Commission, which accused the bank of lacking internal control routines for securities transactions. The bank ran np losses of NKr800m ($124m) onsecurities business last year and ns a result turned a 1986 profit of NKr327m into a net loss of NKr1.5bn.

Mr Arnkvaern said that the bank's share portfolio wonld be reduced to NKr500m. It stood at NKr1.2bn in 1987. At tho same time foreign exchange business is to be reduced by 25 per ceot and property investment is to be scaled down by NKr300m to NKr500m.

Other measures include:

- Loans with long maturities in the order of NKr2bn to NKr3bn will be sold to institutions wbich specialise in long-term financing
- Each bank branch will be required to achieve profits corresponding to a minimum of 1.75 per cent of total assets after costs distribution.
- The Norwegian branch network is to be reorganised and rationalised. The main corporate client specialist functions will be limited to large branches and service functions will be made more efficient.
- A central unit has been established to assist branch offices and identify commitments with potential losses at an early stage.

Cerus steps up pressure on La Générale

By Tim Dickson in Brussels

MR CARLO De Benedetti, tbe Italian businessman, applied new pressure on Société Générale de Belgique yesterday.

Cerus and Dumenil Leblé, the two French companies through which he is seeking control of the Belgian group, songht to impose new legal restrictions on three big sub-holdings in La Générale.

The move followed last week'e decision by a Brusseels commercial court to block tbe "poisoo pill" defence attempted by the board of La Générale against Mr De Benedetti.

This was to have been a large issue of new shares which would have served to dilute the impact of his unwelcome bid. At the same time, Judge Jean-Louis Duplat ruled that La Générale should not for the moment make any asset eales above BFr100m ($2.8m).

Yesterday'e development suggests that Cerus wants to extend this judgment to Gechem, Tractebel and CBR, three large holding companies controlled by La Générale and which, respectively, are responsible for co-ordinating and managing the group'e chemicals, energy and cement manufacturing interests.

A statement said that Cerus' aim was to prevent the sale of assets and the distribution of any shares which were part of the autborieed capital, but which had not yet bean issued. The court said last night that its decision would be announced tomorrow evening.

The latest legal twist came amid growing expectations in Brussels that, following the ill-fated initiative by Mr André Leysen, the Flemish businessman, a fresh move to counter Mr De Benedetti may soon be made by French and Belgian shareholders.

Shares of La Générale rose BFr130 yesterday to BFr4,860, which compares with the Cerus offer price of BFr4,000. Analysts said the relatively low turnover confirmed that very few shares were now left in uncommitted hands.

Eurodollar sector extends losses after NY opening

BY CLARE PEARSON

EURODOLLAR BOND prices extended their losses yesterday after US Treasury bonds opened easier in New York on ebbing hopes of lower US interest rates.

The US Treasury bond market, which had been closed on Monday for a public holiday, weakened on continuing disappointment with the US economic data released last Friday, which suggested the US economy was stronger than had been thought.

Prices of 10-year Eurodollar bonds eased by up to ¾ percentage point during the afternoon, while new issues launched last week slipped to even deeper discounts to their issue prices.

Two five-year bonds, for Oesterreichische Kontrollbank and Nordic Investment Bank, were quoted at less 2 and less 2¼ respectively, well outside 1⅞ per cent fees.

Dealers noted that the flurry of Continental buying of Eurodollar bonds seen at the beginning of the year had faded away over the past few days, as investors have taken profits and, perhaps, have been diverted by improving domestic equity markets.

Meanwhile, muted demand for Australian dollar paper appeared to explain why Deutsche Bank Capital Markets limited the size of a seven-year bond for its parent bank's Australian subsidiary to A$70m yesterday.

The 12¾ per cent bond, priced at 101⅛, traded comfortably within 2 per cent fees at around less 1½. Dealers said, however, the primary market was still saturated with recent paper, though a lack of swap opportunities was likely to deter potential borrowers this week.

INTERNATIONAL BONDS

But a DKr400m issue for Ford Motor Credit, launched by Sparekassen SDS, was enjoying good demand, as have most Euro-Danish kroner bonds launched this year. The five-year 10 per cent bond, priced at 100⅞, was quoted at less 1¾ bid, within 1⅞ per cent fees.

Moderate demand for Ecu bonds encouraged Banque Paribas Capital Markets to add a further Ecu50m tranche to the 10-year Ecu100m bond it launched for the European Investment Bank last November. The new 8¾ per cent portion, priced at 104, will trade interchangeably with the original issue.

Nomura International launched a new $70m equity warrants five-year bond for Nakayama Steel Works, bearing an indicated 5 per cent coupon. Meanwhile, Nomura fixed the coupons on other recent Japanese five-year equity warrants deals, for Kenwood and Takashimaya, by ¼ per cent to 4¾ per cent. All the deals traded around six points above their par issue prices.

Carnival celebrations in Frankfurt put a dampener on D-Mark bond dealing yesterday. Prices in both the domestic and Euro-DM sectors were broadly unchanged.

Straight Swiss franc foreign bonds were marked lower by up to ½ point yesterday as investors turned their attention to a strengthening domestic equity market.

Coupons on two five-year convertibles for Japanese companies were cut by ¼ per cent at the pricings yesterday. That on a SFr150m bond for Rohm, the electrical equipment manufacturer, was cut to 1 per cent, while that on a SFr300m issue for Mitsui Bank was reduced to ¾ per cent.

Banque Internationale à Luxembourg announced a LFr300m five-year par-priced 7¼ per cent bond for Kemira, the Finnish chemical company.

Hint of role for foreign firms in Tokyo futures

MR MICHIO TAKEUCHI, president of the Tokyo Stock Exchange (TSE), indicated yesterday that foreign futures dealers would be allowed to participate later this year in the proposed Tokyo stock index futures trading system "under certain conditions," AP-DJ reports from Tokyo.

Mr Takeuchi stressed, however, that all questions on participation would hinge on the parliamentary passage of amendments to the existing securities and exchange law that would make such trading in Tokyo legal.

Exchange officials said that rapid enactment of the necessary legislation could allow the stock index futures trading system to begin by summer.

It will be based on a weighted average of stocks in the TSE's first-section index plus 300 second-section stocks.

Mr Takeuchi said the choice of members who would be allowed to trade under the system would be made from seated TSE members, securities firms which were not regular TSE members and overseas futures dealers.

The current list of seated TSE members, which includes six foreign firms, will be augmented this May by the seating of 16 securities houses from the US, the UK, France, West Germany and Switzerland.

Saint-Gobain in talks with water group

By Paul Betts in Paris

SAINT-GOBAIN, the privatised French glass and pipes group, and Compagnie Générale des Eaux, the large diversified water distribution group, confirmed last night they were discussing a link-up of their respective construction and public works activities.

However, they claimed that, at this stage, Saint Gobain did not envisage the sale of a 65 per cent stake in Société Générale d'Entreprise (SGE), its construction subsidiary.

SGE's shares have been rising sharply on takeover speculation.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on February 16

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey Natl	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
All Nippon	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
British Telecom	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
C.C.C.E.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
C.N.C.A.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Coca-Cola	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Average price change... On day 0 on week -0⅛						

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Bank 5¼ 92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Average price change... On day +0 on week -0¼						

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Average price change... On day 0 on week -0⅛						

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Average price change... On day 0 on week -0¼						

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn	C.yld
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Average price change... On day -0.01 on week 0.00						

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* No information available–previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units. Change on week = Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate for US dollars. C.cpn=The current coupon. C.yld=The current yield.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

هكذا من الأصل

UK COMPANY NEWS

Core activities boost Crest to record £24m

BY ANDREW HILL

CONCENTRATION on core activities of building and property development helped Crest Nicholson increase pre-tax profits for the 13th successive year.

The restructured group made record profits of £24m before tax for the year to end of October, 44 per cent up on the previous year's profits of £16.6m pre-tax.

Pre-tax profits in the domestic property division increased to £19.4m (£11.5m) on turnover of £109m (£85m) as the sector's gross profit margins rose to 17.8 per cent (13.6 per cent).

During the year Crest disposed of seven industrial and commercial subsidiaries for over £15m, profits from which were recorded as an extraordinary credit of £5.2m.

The directors said the company's property division could now act with the construction division - which includes the group's marina company and artificial sports surface subsidiaries - to develop land for residential, commercial and leisure uses.

The division is expanding in the South West, Wales and the Midlands and in November a new regional office was opened in East Anglia.

Last year, construction and related activities were the only areas to disappoint with profits reduced to £168,000 (£2.4m) on turnover down to £72.3m (£79m).

Pearce Construction obtained insufficient new contracts early in the year and tight margins were further reduced. The sports surface companies - En-tout-cas in the UK and US subsidiary All-Pro - incurred a loss for the year.

A £40.2m issue of convertible preference shares in July helped increase shareholders' funds by over £56m to nearly £124m at the end of the year.

Turnover for the group as a whole increased to £223m (£212m) and fully diluted earnings per share rose to 19.65p (15.01p).

The board recommends a final dividend of 3.7p, ahead of Crest's own forecast before the rights issue, making 5.7p (4.75p) for the year.

comment

This year Crest has split its property results, demonstrating the strength of its domestic housing sector which showed a handsome rise in pre-tax margins. The group is confident of the potential for further growth through urban developments which would exploit the core strengths which Crest has retained. Yesterday there was even talk of cashing in on the Channel and the proposed Gibraltar international airport with moves into France and Spain. Crest has recently restructured its finances and come up with borrowing resources of almost £150m, an indication of the ambitions and flexibility of a group with no gearing. In the short term, however, the priority is to strengthen management in existing areas and seek new growth regions in the UK. The prospect of the Swindon development keeping Crest happy beyond the year 2000 and the expected recovery in the smaller subsidiaries supports forecasts of around £31m pre-tax for 1987/8. Yesterday the shares were unchanged at 205p giving a prospective multiple, fully diluted, of about 9 which seems reasonable.

First Leisure sells steak restaurants

First Leisure Corporation, the entertainments and leisure group, yesterday announced that it was selling its chain of Whitegate steak restaurants, less than two and a half years after its acquisition.

"It was difficult to find additional sites, as we operate in a relatively tight locality, with considerable competition from the major steak houses which are part of pub chains," said Mr Michael Cottrell, chairman designate. "It also took longer than we expected to get the new ones motoring."

The company said yesterday that at the time of the acquisition, it had believed steak restaurants offered significant growth. However, profits have fallen below expectations, to £613,000 for the year to October 31, including a small loss from the initial trading period of the three restaurants.

Mr Cottrell said the sale of Whitegates did not imply FLC was thinking of pulling out of catering. Bar takings, including food, account for 33 per cent of the company's turnover. A further 14 per cent comes from food alone.

He added that FLC had been considering selling Whitegates for some time before his arrival there last year, although he may have played a part in speeding up a decision.

The restaurants are being bought for £6.4m cash by a start up company, Whitegate Leisure, backed by Lazard Leisure Fund and Hambro European Ventures. Mr James Naylor, formerly joint managing director of FLC and Mr Nicholas Oppenheim, a director of Dewey Warren Holdings and Kellock.

Terry Dodsworth and David Thomas report on STC's acquisition

Telecom strategy takes shape

STC, Britain's second biggest electronics group, has this week nailed in place one more plank in the strategy it has been constructing for its telecommunications business during the past three years.

Its acquisition of the UK telecommunications operations of Northern Telecom is another step in its alliance with the Canadian company whose breakthroughs in the fiercely competitive US market have made it the world's fourth largest telecommunications equipment manufacturer.

The purchase also renews STC's access to the product long regarded as the flagship of any telecoms supplier with pretensions to operate on a world scale – the digital public exchanges which telecom operators have been buying increasingly to cope with spiralling demand and intensifying competition.

STC abandoned that market in the mid-1980s when its links were broken with System X, the digital public switch it developed with the General Electric Company and Plessey. "STC was kicked out of System X. And it took a period of time to get over that shock and to figure out what that new strategy should be," admits Mr Peter Gershon, who moved from STC's ICL computer subsidiary last year to head the telecoms business.

As the centre of its new approach, STC has seized on a development which it believes is about to revolutionise the fast changing world of telecommunications.

Technological advances are making it possible for some of the functions traditionally the province of the central switch to be carried out in a more decentralised fashion.

In practice, this has meant concentrating on three areas.

First, transmission equipment itself: STC's new strategy revolves around a new generation of equipment in which it claims a world lead. Known as digital multiplexers, they control the flow of signals along the telecoms network.

Second, in the area of cables, in which STC has traditionally beeo strong, the advent of optical fibre has greatly increased the numbers and types of signals which can be carried simultaneously over a telecommunications cable.

The third area is equipment on customer premises, such as telephones and exchanges for smaller businesses. STC believes these will also evolve as more functions are controlled by the transmission network, rather than by the central exchange.

However, even if Mr Gershon is correct in arguing that the digital central exchange is set to diminish in importance in the medium term, for now it remains a key product in the portfolio of most equipment suppliers. Until this week, STC was without that product.

The deal with Northern appears to plug that gap. In future, STC will be responsible for Northern's DMS family of public exchanges in the UK. The companies think this will boost the chances of selling Northern's exchanges to British Telecom.

STC also believes that access to the technology underlying Northern's exchange will help it put together powerful joint bids for telecoms projects. One example of the way in which the collaboration between the two companies is already working is the latest bid by STC for a fibre optic-based transmission network being introduced by British Telecom.

BT's Flexible Access System (FAS) is being installed in the City and will eventually be extended to other parts of the country to give business customers a higher qoality, faster and more malleable service for both voice and data traffic. STC's multiplexers lie at the centre of these networks, and according to Mr Gershon the most recent offering from the company is radically different because of the injection of Northern's technology.

Northern has given STC a combinatioo of its expertise in semiconductor design, its computerised design methods and its skills as one of the world's leading producers of line cards. Line cards translate messages from one part of a telecommunications network to another, and are an essential part of a multiplexer. Manufacturing them is a competitive, high volume business, and Northern Telecom is said to be one of the world's low cost suppliers.

Peter Gershon: most recent offering is radically different

For both parties, however, the opportunity to work together on multiplexers is only part of the attraction of the deal. Co-operation is expected to work at a number of levels.

- The two companies have already established a steering committee which meets once a month on both sides of the Atlantic to review joint programmes and formulate new ones.
- In the technology field, they will collaborate on specific projects – for the FAS programme, for example, they put together a joint development team.
- In the longer term, STC could provide manufacturing facilities for Northern products in the UK. This would be particularly relevant if Northern became a serious contender in the large public switch market.
- STC could also help Northern in some overseas markets, particularly in the developing world where the UK company has long-established contacts.
- There is a possibility that the next generation of Northern's large private exchanges might be manufactured and distributed by STC. At present, these switches are made under licence in the UK by GEC.
- The agreement will also conclude Northern's withdrawal from the office automation market after an unhappy experience over the last few years in trying to diversify away from pure telecommunications. Northern's loss-making European activities in this area are to be taken over by ICL, the computer manufacturing subsidiary of STC.

Mr Roger Wood, the new managing director of the former Northern businesses, said yesterday that the acquisition would give ICL access to "some rare skills in Europe, s significantly extended customer base and added distribution."

Northern has concentrated on specific markets sectors, such as central and local government, where ICL is active, and although half of the Canadian company's European office systems sales are in the UK, it is also present in France, Belgium, Holland, Italy and Switzerland.

- Finally, Northern ought to have the clout in North America to help STC break through into the lucrative US market.

Both companies see their alliance as a chance to become genuine multinationals. Northern has already gone some way towards that goal by establishing itself as the second largest public switch supplier in America, and winning a foothold in Japan. But as far as the British company is concerned, the litmus test for the deal will be whether or not it can piggy back on Northern's marketing network to a significant position in the US.

PLESSEY DELAYS GEC LINK CIRCULAR

Plessey has postponed plans to send a circular this week to its shareholders about the merger of its telecoms equipment business with GEC's, reports David Thomas.

A circular giving financial details about the merger is unlikely to appear now for a couple of weeks because some details remain to be worked out. However, the company stressed that the joint venture was still on course

S&N in new role at High Gosforth

BY NIKKI TAIT

Scottish & Newcastle Breweries is to take a boardroom role at High Gosforth Park, the small Newcastle-based racecourse owner and estate manager, in which the drinks company holds a 10.7 per cent stake. Mr Alick Rankin, S&N's chief executive, and Mr Gavin Reed, chairman of Newcastle Breweries and a main board director at S&N, have been appointed directors.

Two other local businessmen are also joining the board - Mr Kenneth Bell, chairman of Tyneside building group Bell-i-way, and Mr Robert Dickinson from Dickinson Dees, the Newcastle solicitors.

The new appointments came as High Gosforth announced that it is "currently discussing with its financial advisers proposals for the raising of additional finance for developing the company's business". The new main board is expected to concentrate on development plans for the Gosforth Park Estate - and yesterday Mr David Parmley, managing director, said a number of possibilities were being considered. Yesterday's announcement comes in the wake of a previous capital injection scheme which was rejected by shareholders - including S&N - last year.

Four existing board members are resigning - including chairman Viscount Allendale who becomes president of the company. High Gosforth's previous board will take charge of the horse racing operations through directorships of the wholly-owned subsidiary, Newcastle Racecourses.

Reckitt in US disposal

BY DOMINIQUE JACKSON

Reckitt & Colman, the international food, drugs and toiletries group, is selling the olive business of its US subsidiary, Durkee Famous Foods, to Campbell Soup for $30m (£17.25m) cash.

Reckitt & Colman is disposing of Durkee's olive processing and packing division because it is not central to Durkee's activities which are mainly flavour enhancement lines.

The olive unit made pre-tax profits of $2m on sales of $49m in the 1987 financial year and has net assets of $12m. The deal should be completed by February 29.

Ewart

Yesterday's FT incorrectly reported that Ewart's net asset value rose to 1.43p (1.11p adjusted) in the six months to October 31. In fact,these were the figures for its rise in earnings per share. Ewart recently shortened its name from Ewart New Northern.

TVS video offshoot to be sold back to co-founder

BY HEATHER FARMBROUGH

Television South has agreed to sell the whole of the issued share capital of Blackrod and its video production subsidiary, back to one of the co-founders, Mr Michael Blakstad, who is chief executive and controlling shareholder of Workhouse Productions, Winchester.

Mr Gerry Buckland, TVS corporate relations director, refused to disclose the amount of the proposed disposal, but analysts believe TVS could realise about £2m. In September last year, it was announced that Broad Street, the public relations company, had agreed in principle to the acquisition of Blackrod. Following the October stock market crash, however, the sale did not proceed.

Blackrod is a producer of corporate media services. As an independent company, it will meet requirements for programme makers recently issued by the Independent Broadcasting Authority. It was set up by Mr Blakstad and Mr Michael Rodd and acquired before TVS won its franchise. Mr Blakstad later became programme director at TVS.

TVS is planning a significant increase in programme production this year, but Mr Buckland said that he did not think the corresponding increase in costs was a relevant reason for the disposal.

Bremner EGMs called

BY PHILIP COGGAN

SHAREHOLDERS in Bremner, the financial services group, who recently were faced with two people who claimed to be their chairman, are now being invited to two separate extraordinary general meetings, on different dates and at different venues.

In a letter to shareholders, Mr James Rowland-Jooes, the former chairman, has called on them to attend a meeting on March 24 at the Great Eastern Hotel, London. He requisitioned this meeting before he left office. However, Mr Dennis McGuinness, the current chairman, has called an egm for February 24, in Glasgow. At dispute is the validity of the notice which Mr Rowland-Jones sent out.

Mr Rowland-Jones hopes to remove Mr McGuinness from office at the egm, and to return to the board himself, along with two former directors.

The issue is complicated further by a dispute over the role of Mr Eric Pearce, Mr John White and Mr Chris Adams. Mr Rowland-Jones claims that he co-opted the trio onto the board before his removal and that Mr Pearce then became chairman. Mr McGuinness disputes that the three were validly appointed as directors. A Scottish court has placed an interim interdict oo the trio preventing them from claiming to be members of the board.

MIM group lifts stake in DSC to 23.99%

BY NIKKI TAIT

CLIENTS OF MIM, fund management group - together with parties acting in concert with MIM - have raised their stake in DSC, the former Diamond Stylus group, to 23.99 per cent.

The MIM grouping announced a 15.05 per cent interest in late-January. The latest purchases comprise 664,948 shares acquired by MIM's clients; 25,000 shares by Lord Stevens, chairman of MIM; and 10,000 by Mr Christopher Mills. Both Lord Stevens and Mr Mills have already joined the DSC board. In addition, DSC says it has been informed that the Merchant Navy Officers Pension Fund Trustees has acquired a 17.2 per cent holding.

The shares were bought last week at 85p from Enigma International Holdings and New Century Ventures Holdings.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres-ponding div	Total for year	Total last year
Alexanders Hldgs ......fin	0.73	-	0.71	0.73	0.71
Crest Nicholson ......fin	3.7	Apr 15	3	5.7	4.75
Hard Rock Intl ......int	0.76♦	-	nil	-	0.8
Ricardo Consult ......int	1	Apr 8	1	-	3.25
Trencherwood § ......fin	2.75	-	2.25*	3.5	3.05*

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. ♦Unquoted stock. ¶Third market. ♦On class A (RV) shares.

Listing costs cause setback at Hard Rock

BY FIONA THOMPSON

LARGER THAN anticipated costs in going public, problems with a listed building, and the weakness of the US dollar have held back **Hard Rock International's** interim profits.

The operator of the Hard Rock Cafe restaurants reported pre-tax profits slightly down at £2.61m for the six months to December 31, 1987, compared with £2.97m for the same period in 1986. This was despite an increase in sales from £9.16m to £12.06m. Earnings per share fell to 3.13p from 4.87p.

"We've been sitting in lawyers' offices all year," said Mr Barry Cox, joint chairman. "The expenses just got out of hand. We didn't fully realise how much management time would be involved in going public, especially in the US."

The company came to the London market last November. Its shares have been traded on the American Stock Exchange since early last year.

The interim pre-tax figure for 1986 included an exceptional item of £906,000, the proceeds from the sale of an area franchise. Stripping this out, at the operating profit level this year's £2.61m is a 26 per cent rise on last year's £2.07m. But this rate of earnings growth "is still disappointing when put in the context of previous years," said Mr Cox.

The weakness of the dollar affected the value of income from the US by £200,000 to £300,000, and the company had problems with two new US sites. In Washington there were delays because the restaurant is in a listed building and in Boston the purchase of a site fell through just weeks before completion. The delays had been expensive but both restaurants were expected to open late this year.

The tax charge slipped to £946,000 from £1.07m. An interim dividend of 0.76p on the 'A' restricted voting ordinary shares was declared. As in previous years no interim dividend has been declared on the ordinary shares.

● comment

Barry Cox crossed the Atlantic 21 times in the past year. That alone will have added up to a tidy sum, so one can well see what the company meant when it said expenses and costs ran out of control. Though the management wins brownie points for its openness, yesterday's results were substantially below what the City had been expecting. The costs incurred recruiting senior management for the new US operations will carry through into the second half, but without any of the benefits because the restaurants will not open until the end of the financial year. But two year prospects are good – the merchandising operations, now 45 per cent of sales, are building up and Cancun looks like a moneyspinner. Analysts yesterday marked down their pre-tax profits forecast for the full year to about £6m, producing a prospective p/e of 12.

Britannia Arrow raises M&G holding to 5%

BY NIKKI TAIT

Britannia Arrow, fund management company, yesterday confirmed that it had raised its stake in M&G, Britain's largest unit trust group, to 3.825m shares or 5.01 per cent. Suggestions that Britannia Arrow had gone through the disclosable level were mooted in the weekend press, and yesterday M&G shares eased back by 3p to 295p.

The stake is held through Citystep, an investment holding subsidary of Britannia Arrow. Citystep's interest in M&G came to light last October, when it was revealed that the Britannia Arrow offshoot had picked up a 4.65 per cent holding in the unit trust management company. The initial holding was picked up when Kleinwort Benson sold off a 37 per cent interest in M&G at the end of 1986.

Yesterday, Lord Stevens – vice-chairman of Britannia Arrow – said that the recent addition was the result of being offered a line of stock, and that the fund management company was not an aggressive buyer.

M&G's managing director, Mr Paddy Linaker, also pointed out that the increase was small. "We presume that they think it's a good investment," he commented.

M&G has seen another major shareholder arrive on its register recently. The Australian Bond Corporation acquired a 6.8 per cent interest in M&G last December, following the sale of some shares by Ensign Trust. M&G says it has not had any recent contact with Bond, although some inconclusive contact is believed to have taken place between Bond and Britannia Arrow. Yesterday, no one at Bond Corporation was available to comment on the stakeholder's postion.

Just over 31 per cent of M&G's shares are held by the Esmee Fairbairn Charitable Trust.

Poor response to Dobson bid

Dobson Park Industries, the diversified engineering company which is making a hostile bid for MS International, received acceptances covering just 0.89 per cent of the mining equipment group's shares by the first closing date of its offer on Monday. It has extended the offer until February 29.

Mr Michael Bell, chairman of MS, said: "Shareholders have clearly seen the bid for what it is, opportunistic and quite unwelcome." Dobson has bought 3.19 per cent of MS's shares through the market, so it now has 4.09 per cent of MS's equity.

Dee Corporation

The graph in Monday's Financial Times accompanying an article on the bid for Dee Corporation by Barker & Dobson was incorrectly labelled. The top line on the graph should have been flagged as the "FT-A All Share Index (rebased)" and the middle line as the "Datastream Food Retailing Index (rebased).

James Buxton examines the background to Rodime's misfortunes in 1987

Optimism following a year of crisis

MR COLIN GRANT, finance director of Rodime, the Scottish company which manufactures hard disk drives for computers, has a somewhat euphemistic explanation for the crisis which hit the company last year. He says it was suffering from a "mismatch."

The mismatch occurred because the company could not introduce a new line of products in time to offset declining sales revenues from the older product range. The crisis came to a head in June last year when Rodime had to write off £8m worth of stock and cut its worldwide workforce by 300, shedding 200 of its 760 employees at Glenrothes in Fife alone.

Production had to be rationalised, there was a reshuffle in the line-up of senior managers, and Rodime closed the year to September 30 1987 with a pre-tax loss of £13.4m (£1.7m loss), amounting to a loss of 147p per share. Sales in 1987 were £71.7m, up 8 per cent on 1986.

Rodime, which produced first quarter results yesterday, was until recently one of the major successes of the UK electronics industry and its ambitions have not been dented by its recent difficulties. In a manner more reminiscent of California's Silicon Valley than of Scotland's Silicon Glen, it was formed in 1980 by an American and three Scots who broke away from the US concern Burroughs to set up their own company and manufacture their own designs of Winchester hard disk drives – the permanent memory of a computer.

The orginal funding was put in by the four founders and by Investors in Industry (3i), between them still the owners of 40 per cent of Rodime. Subsequent funding, totalling $49m, was raised on the New York over-the-counter market where the company is quoted, and in 1986 Rodime also secured a UK Stock Exchange quote.

Until 1985 Rodime grew rapidly: in that year it achieved record pre-tax profits of £14.8m on sales of £75.9m. Having built up a range of 5¼-inch disk drives, Rodime had scored considerable success by becoming in 1983 the first company to introduce the 3½-inch disk drive, developed at Glenrothes. In 1984 Rodime established a plant at Boca Raton in Florida to make its 5¼-inch drives.

But although Rodime continually refined and improved its product range other manufacturers were catching up with it and in some cases, Rodime has claimed, infringing its patents. Furthermore, the 3½-inch disk size caught on more slowly than Rodime had hoped, partly because until last year IBM did not adopt it for its personal computers, and thus set it to become the new industry standard.

Products similar to some of those of Rodime were increasingly being produced in very large volumes in Singapore and elsewhere in the Far East. Although Rodime decided in 1986 to establish its own plant in Singapore, it was not operating until August of last year.

"We were not designed to be a mass volume manufacturer", says Mr Grant. "We were located in areas – Glenrothes and Boca Raton – that are not suitable for mass manufacturing. If you stay one step ahead you don't have to compete in the volume market place."

But Rodime did not stay one step ahead. In mid-1986 it realised it had developed its existing range of products as far as they could go. It was time to develop a new range of disk drives with the aim of bringing the new product range to the market just as the older range was being phased out. Rodime was also adding an 8-inch disk drive to its range.

Rodime, however, underestimated the time it would take to develop the new products. "It was difficult to introduce three new product ranges simultaneously," says Mr Grant. "It's fair to say that we overstretched our resources. We lost nine months to a year."

Though Rodime was still taking orders for its older product ranges, sales were in decline and prices falling. In the end the pressure on margins proved too great and last June the company curtailed production of its RO 200E 5¼-inch series and wrote off £8m on inventory and the cost of cutting the workforce.

Since then Rodime has been building up production of its new product ranges, though several are still being evaluated by major original equipment manufacturers. Rodime believes it is poised to see the benefits of what has been a long and costly transition – it has spent £5m on engineering costs alone in the past two years. It believes its products are "at the forefront" of their fields.

Far more important is the fact that Rodime's Singapore plant is now operating, which puts Rodime on a par with hard disk drive manufacturers in the US, such as Seagate and Miniscribe, which have operations in the Far East. Now it is establishing in Singapore it is setting up a sales team there to tackle the market among Far East original equipment makers.

Rodime crept back into profit in the fourth quarter of the 1986/87 financial year, making £220,000. Mr Grant believes that the company could soon see a big jump in revenue and profits, the first signs of which could emerge in the second half of the current financial year, though he cautions against making any assumptions about orders that have yet to materialise. The Singapore plant, being in an area with a dollar-related currency, gives some protection against falls in the dollar against sterling while having a plant in Florida is something of an insurance if protectionist pressures grow in the US.

But the world disk drive market is fearfully competitive and many of Rodime's rivals have similar product plans and are at least as well placed to manufacture cheaply and with as good a currency mix as Rodime. The company expects to return to profit this year.

So far the market has not reflected vast optimism about Rodime's recovery. The share price fell last year from 605p to 100p, although it is now back at 210p.

FIRST-QUARTER TURNROUND

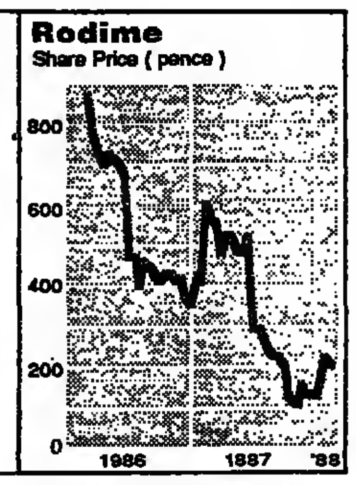
Rodime made first-quarter pre-tax profits of $509,000 (£292,277) in the three months to end-December 1987.

Rodime has decided henceforth to report in US dollars instead of sterling, in view of the fact that about 70 per cent of its purchases and revenues are denominated in dollars.

The outcome compared with a pre-tax loss of $2.58m in the group's first quarter of 1986/87. Turnover was $23.37m compared with $22.6m in the corresponding period of the previous year.

Rodime lost a total of $21.6m (£13.5m) in the full 1986/87 year. But the company made a very small operating profit of $19,000 in the last quarter of that year.

The company said that sales to the retail sector accounted for a significant proportion of revenues in the first quarter due to higher seasonal demand. The company also delivered units of its range of new products for evaluation by an increasing number of potential original equipment manufacturers.



UK COMPANY NEWS

David Lascelles profiles the success of the UK's most profitable bank

Assessing a Yorkshire paradox

A BANK that is undergeared, that makes some of the cheapest loans in the country, and that has such a large surplus of deposits that it has to put them out in the money markets at the slimmest of margins, would be lucky to earn a decent return for its shareholders.

Yet the Yorkshire Bank does all those things, and somehow manages to be the most profitable bank in the UK, if not the whole industrialised world. It is the great paradox of British banking.

"We're a bit unusual," agrees Mr Graham Sunderland, the bank's brisk Yorkshire-born general manager, with a touch of pride.

Yorkshire Bank (whose owners are NatWest with 40 per cent, Barclays with 32, Lloyds with 20 and Royal Bank of Scotland with 8) has topped the UK banking profitability leagues for years, according to IBCA, the London bank credit rating agency.

But yesterday's results were so astonishingly good that Mr Sunderland had to spend much of the day warning people that they were probably unrepeatable. His bank had managed to earn a return on its shareholders' funds of 39 per cent, and on its total assets of 4 per cent. Most other banks reckon they are doing well if they earn returns only half that big. How does Yorkshire do it?

Part of the answer lies in the kind of bank it is. Based in Leeds, Yorkshire Bank has made a point of digging deep into the rich seam of its local banking markets, and pinching its own pennies in time-honoured Yorkshire fashion. Structurally, it has never burdened itself with huge branch networks (it has 244 branches) or top heavy management.

Although it is gradually moving southward (next stop Hitchin), Mr Sunderland refuses to open a southern regional office because that would only create a new bureaucracy.

"I'll never take a taxi if I can take the tube," he says.

The staffing count has been brought under tight control, and Yorkshire's strong deposit-gathering business also provides it with a secure, low-cost funding base.

In its lending policies, the bank deliberately avoids the highly competitive big company market where profit margins have been shaved to the bone. "We're not bankers to ICI or anyone like that", says Mr Sunderland. Nor has Yorkshire got any exposure to troubled Third World countries.

Instead, the bulk of its lending is to the medium and small sized company market in the Midlands and the north where margins are a bit wider. It also has a large instalment loan business, again earning it those few precious extra percentage points.

The boom in the UK lending business, both among private and corporate customers, has helped, of course. Yorkshire increased its loans by 21.6 per cent last year, and claims now to offer some of the most competitive rates on mortgages and personal loans in the country.

But since competition has become more intense on the retail side, it has switched its biggest effort to the corporate market.

If anything, Yorkshire has begun to suffer from its own success. It is greatly undergeared compared to its competitors, which means it could step up its lending considerably. According to Mr Trevor Brown, controller of finance, the bank's ratio of weighted risk assets to capital (a key measure of bank strength) is a relatively high 13 per cent, against 8 per cent at the big clearers.

But Yorkshire already has more money coming in than it can find suitable borrowers for. Deposits and other takings totalled over £2bn at the end of last year, but loans amounted to only £1.8bn, meaning that the unused deposits had to be parked in the low-yield money markets. Part of the deposit surplus may be used to fund the £100m or more which Yorkshire expects to lend in mortgages this year. But Mr Sunderland agrees that finding suitable avenues for growth "is a problem".

PROFITS ADVANCE 35% TO £88.8m

Yorkshire Bank, the Leeds-based bank owned by four UK clearers, increased pre-tax profits by 35 per cent last year to £88.8m. The group's capital and reserves rose 18.3 per cent to £247.4m, and total assets were up 15.2 per cent to £2.4bn.

Mr Graham Sunderland, general manager, ascribed the improved result to the strength of both the retail and corporate banking markets, and cost control within the bank. Additionally, results were helped by property realisations, and profits in gilt-edged dealing.

Mr Sunderland advised, however, that Yorkshire had benefited from exceptionally buoyant banking markets in 1987 and that its profitability performance was unlikely to be repeated this year.

Regional key to Trencherwood growth

BY DOMINIQUE JACKSON

Trencherwood, USM-quoted west Berkshire property developer, increased pre-tax profits by 77 per cent from £4.21m to £7.45m in the year to end-October 1987 on turnover up more than a third to £32.6m from £24.1m.

The total dividend is raised from 3.075p to 3.8p via an increased final of 2.75p (2.25p). Stated earnings per share rose from 14.64p to 23.70p after taking into account the one-for-one scrip issue earlier in the year.

Prudent land buying, strict financial control and a strong management team contributed to growth and Trencherwood was exceeding all targets for the current year, Mr John Norgate, the chairman, said.

Continued growth meant the company would be seeking to raise fresh capital in the near future, but had not yet decided which route to take.

This could coincide with a full stock market listing, later this year or early next, Mr Norgate added.

Mr Brian Eighteen, finance director, said the key to the performance improvement was its regionalisation programme, the benefits of which would be visible later this year, gathering momentum in 1989.

Continued high gross margins at around 29.2 per cent had enabled the company to pursue its policy of expansion away from its West Berkshire base.

Trencherwood has an extensive land bank along the M4 corridor, but has recently set up regional subsidiaries based in Southampton and Gloucester.

Combined output from the two regions was expected to rival that of dominant West Berkshire by 1990, Mr Eighteen said.

Trencherwood plans to set up a Midlands region later this year and is looking to start strategic land buying in the Cambridgeshire area with a view to an eastern division.

Expansion into the retirement homes' market continued with 89 units sold against 20 in 1986. The current land bank owned or contracted for retirement homes is 200 units.

● **comment**

Trencherwood's fine performance, at the summit of most profit forecasts, confirms the company as one of the strongest of the smaller specialists on the USM. Wise buying, always with an eye to the longer term, has secured a solid land bank in one of the country's most prosperous areas. It has a dominance of the West Berkshire region which would make most companies complacent, but is moving prudently into counties where the ripple effects of the south-east property price rise are still keenly felt. The commercial programme is also bang in line with the company's plans – gross development value of current schemes is estimated at £90m. Forecasts for the current year are for £10m, giving a fair p/e of about 10.5. The prospects are good for continued growth which should see the company going for a long-awaited full listing or making a few key acquisitions, both of which were put on ice in the wake of the October crash.

Shaftesbury in 72% profit rise to £0.22m

Shaftesbury, the property investment and development company which obtained a London listing last October, has announced a 72 per cent increase in pre-tax profits for the year to end-September 1987.

Net revenue from properties amounted to £1.06m (nil) and there was a £550,000 surplus (nil) on sales of properties held as current assets. The pre-tax result came out at £217,000 (£126,000).

Interest received amounted to £24,000 (£134,000) and there was other income of £43,000. Administrative expenses rose from £4,000 to £335,000, interest charges moved ahead from £4,000 to £1.05m and there was an £82,000 share (nil) of associated losses.

After tax of £108,000 (£43,000) net profits were £109,000 (£83,000) for earnings per £1 share of 1.1p.

The group's investment and development properties held as fixed assets were valued at £24.33m at September 30. Net assets per share were £1.32 (£0.99). The directors intend to retain funds for investment and to expand and develop the property portfolio.

Ricardo profits dive to £0.26m at six months

Ricardo Consulting Engineers reported taxable profits of £262,000 for the half year to end-December 1987, against £927,000. Mr Douglas Taylor, chairman, said the figures were not strictly comparable due to the sale of G Cussons at the beginning of the present financial year. In the period Cussons showed a pre-tax loss of £121,000.

The second half of the 1986-87 year saw Ricardo with a poor trading profit, Mr Taylor said. Rationalisation undertaken at the end of that year had resulted in a significant increase in profits but the level was still not acceptable and business opportunities were being pursued in the traditional engine area and new areas, such as transmissions.

In the first half of the current financial year a number of substantial orders had been obtained, but the timing of the orders meant they were not reflected in the half-year results. The operations at the new US subsidiary, Ricardo-Tuck, had also made a good start.

The interim dividend is being maintained at 1p per 25p ordinary share.

First Security to buy 88% of Humanetics

First Security Group, whose interests range from automotive electronics to security detection products, has announced that it is buying a controlling interest in Humanetics, a Los Angeles-based company which makes and designs dummies used in the crash testing of vehicles.

Subject to shareholders' approval, First Security plans to pay a total of $2.64m (£1.52m) for the US business, and inject a further $730,000 into Humanetics as working capital. The deal will give FSG 800,000 shares, or 88 per cent of the US company.

The purchase price will be met by $1.64m cash – from FSG's existing resources – the issue of a $1m loan note, paying 8 per cent and repayable over seven years. There is an option agreement over the remaining equity, with the purchase price of this minority dependent on pre-tax profits achieved by Humanetics.

Humanetics was formed in 1973, and employs about 75 people. Sales in the year to October 31 1987 reached $4.65m with pre-tax profits of $1.2m.

First Security shares rose 5p to 250p yesterday.

Further asset setback for Newmarket Co

Newmarket Company, Bermuda-based venture capital concern listed on the Stock Exchange, reported a further fall in its net asset value at the end of 1987.

Per 5 cent share the figure was $1.90 against $2.36 a year earlier and $2.15 at the end of September. However, the chairman said the year-end result was a slight improvement on the level at November 5.

The company's main role in the present year would be to ensure that its unquoted portfolio continued to have adequate funding for growth until the new issue market showed signs of coming back to life.

In 1987 total revenue came out unchanged at $1.07m (£614,000). Total spending was $2.98m ($2.82m), for a loss of $1.91m ($1.74m).

After realised portfolio gains the loss for the period was $1.88m ($1.63m). Stated net loss per share was 5.3 cents (4.6 cents).

Yearling bonds

The interest rate for this week's issue of local authority bonds is 9⅛ per cent, showing no change from last week, and compares with 10⅝ per cent a year ago.

The bonds are issued at par and are redeemable on February 22 1989.

A full list of issues will be published in tomorrow's edition.

BOARD MEETINGS

TODAY

Interims– Automagic, Manganese Bronze, Regent Crest, Victor Products.

Finals– British Kidney Patient Association Investment Trust, Copenhagen Handelsbank, Green Property, Independent Newspapers, Investment Trust of Guernsey, Trust of PropertyShares.

FUTURE DATES

Interims–	
Consolidated Plantations	Mar 3
Goodwin	Feb 22
Scholes (G H)	Feb 22
Thorpe (F W)	Mar 15
Finals–	
ASEA AB	Feb 22
Aktiebolaget SKF	Feb 25
Alida Holdings	Mar 14
Allen Cooper Holdings	Mar 1
BSR International	Mar 4
Baltic	Mar 7
Brixton Estate	Feb 23
Ensign Trust	Mar 10
Energy Capital	Feb 23
General Mining Union Corp	Mar 10
Marsh Group	Feb 26
Rapsomes	Mar 14
SGO Savory Mills	Feb 24
Towers	

Year-end fall at Alexanders

Taxable profits of **Alexanders Holdings**, Scottish Ford main dealer, fell 10 per cent to £905,000 in the 12 months to end-September 1987.

Profits declined despite a 17 per cent upturn in turnover from £58.1m to £68.16m. After tax of £302,000 (£347,000), earnings per 10p share worked through at 1.46p against 1.61p last time.

A single dividend of 0.73p is proposed for the year (0.71p).

Jacqmar improves

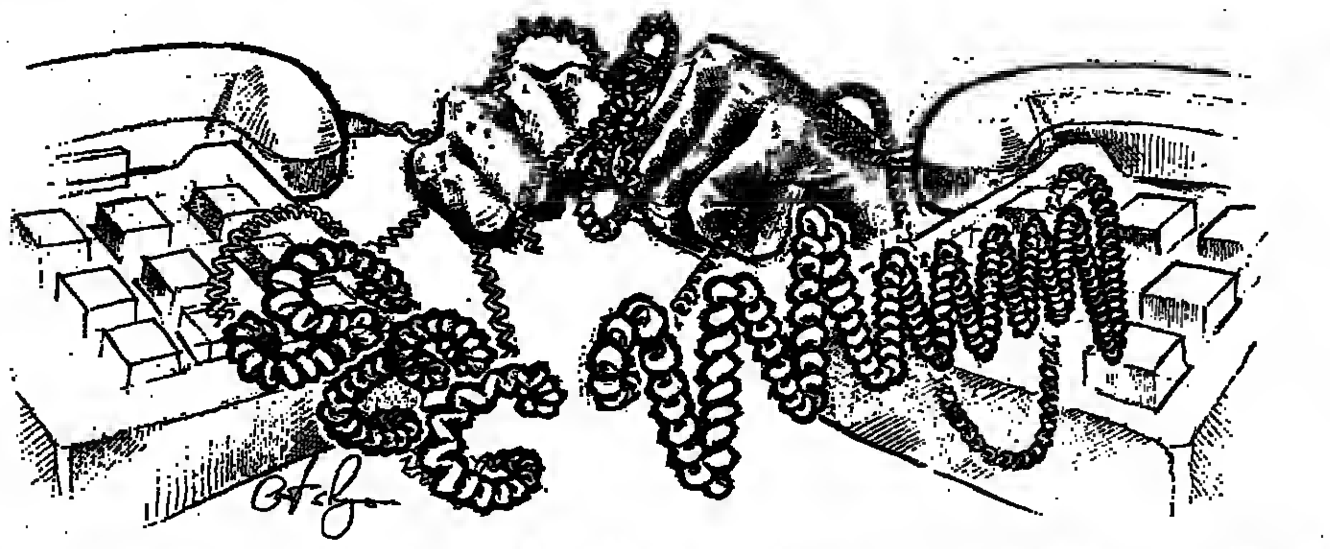
Jacqmar, Derbyshire-based dress fabric merchant wholly-owned by Selincourt, broke even in the six months to September 30 1987. Last time pre-tax losses amounted to £91,000.

Turnover for the half year was £9,000 (nil). Operating profits were £2,000 (£83,000 loss). Losses per share last time were 10.4p. The company's ultimate holding company is Stormgard.

مكتبة الأمل

Eliminate the negative, accentuate the positive

David Thomas explains how the GEC-Plessey telecoms venture is radically overhauling its technological approach



FEW COMPANIES ever have the time to undertake a complete rethink of the way they organise their approach to engineering and technology - their product development, standard setting, use of computer technology and so oo.

Yet a radical overhaul of precisely these functions is now under way in one of Britain's most important high technology companies, the new joint venture between General Electric Company and Plessey in telecommunications equipment, which will have annual sales of about £1.2bn.

Since the agreement in principle to merge was announced in October, teams from GEC and Plessey have been taking a fine tooth-comb to the technology functions of both companies. These sprawl across more than a dozen sites and constituent businesses, such as private telephone exchanges, public exchanges, transmission and data communications equipment. They also straddle the different technological traditions which characterise the joint venture's two parents.

The merger has released engineers, normally fully stretched on day-to-day projects, to look at basic organisational issues afresh. "Changes were under way in both companies, but the fact that we have to have a root-and-branch examination of all our operations has given us a good opportunity to do this," explains Martin Ward, the newly appointed technical director of the joint venture, who came from the GEC stable.

On the engineering front, this has involved looking at a function which will cost the joint ventore more than £100m a year and tie up some 3,500 staff. In the past, Ward says, "by and large, each company has taken the view that each business should be able to plough its own furrow."

This meant that each constituent business was responsible for its own equipment standards, component specification, documentation, design atandards, project control, engineering accounting and so on. There was little common approach within GEC and Plessey, let alone between the two companies, although their joint development work on the System X digital public exchange had led them to adopt common standards and tools in that area.

In the past, Ward maintains, the diversity was not too great a problem, but telecommunications technologies and markets are beginning to impose penalties on this lack of technical coherence. Traditional demarcations between products, such as exchange and transmission equipment, are breaking down, putting a premium on a more unified approach to standards.

Also, with the market becoming more competitive, product development has to be quicker, requiring technical staff to be flexible enough to move swiftly between projects.

This fast-changing environment has rendered inappropriate some of the gold-plated attitudes considered good practice in the past. "We used to over-evaluate our tools," Ward concedes, giving as an example the tendency for engineers in different businesses to study all the capabilities of a new computer aided design (CAD) system. The duplication of effort this implies could be avoided by having more of the work dooe centrally.

The joint venture's new management concluded that some procedures could be put in place across the whole group quickly. These include a unified approach to project control, engineering accounting and reviews of the product portfolio, as well as improved quality procedures and formal design processes where they did not already exist.

"We will be disappointed if we don't accomplish these objectives in the first three months," explains Richard Reynolds, the joint venture's managing director.

Other changes will occor more gradually, including progress towards a common range of components, documentation and part numbering across the group. These will be introduced as and when new projects allow. To move more rapidly would mean premature obsolescence of investment in areas such as CAD tools and training in design methods.

The joint venture is conscious of the need to avoid pitfalls inherent in some of these medium-term developments. A common component database for the whole company, for instance, will allow standard designs, flowing through to economies of scale in component purchasing. "But one of the problems of having a common database is the ease with which each designer can get into the database. We don't want two week delays," says Ward.

He aims to avoid such problems through the flexibility offered by the latest computer systems, giving his engineers speedy access to a company-wide technical database. Advanced computer technology will also underpin the way GEC Plessey Telecommunications is to organise its engineering function.

The joint venture decided against having a large centralised engineering department. Not only would that have been bureaucratic and unresponsive, it would also have cut against the grain of the existing traditions in the two companies. "There is no historical precedent for the centre imposing its will on such matters on the businesses," Reynolds says.

Instesd, the joint venture is setting out to make sure that even the small group of engineers at the centre will remain in touch with the immediate needs of the businesses. "We don't want to give the people concerned with this the impression that there's a career for life in setting standards. We mustn't see standards as ends in themselves, rather than as means to ends," Reynolds argues.

So the joint venture's central engineering department will have a small permanent staff of 20-30 people. Even these will rotate; an engineer's typical stint at the centre will be two to three years.

This permanent core will be topped up by secondments from the businesses, equivalent to perhaps another 40 people, whose job will be to keep the central department in touch with market priorities and then to take the centre's work back to the businesses. Some of the centre's specific jobs will also be contracted out to the businesses, thereby reinforcing the pole position of the businesses.

Part of the centre's role will be to stimulate new products, a responsibility which Reynolds believes has to be shared by the company's engineers and marketing specialists. The centre will have a manager whose specific job will to be hurry new products along. Under the wing of the technical director, it will also have a small fund to use as it thinks fit for new product research.

But the centre's annual budget will be relatively small - £10m-£15m is the present thinking. Its task will be to pursue the twin goals of providing the "glue," as Reynolds puts it, for the new company's technological thrust, while allowing most of the initiative to come from the constituent businesses which are inevitably nearer the market.

To reinforce the decentralised nature of the joint venture's technological approach, Reynolds believes that not even the centre's own staff need work all in one place. GEC Plessey Telecommunications is putting in place a new company-wide voice and data network which will allow members of the central engineering function to work miles apart from each other.

Gargaro gets weaving on an IT patchwork

JOE GARGARO, who is stitching together an information technology strategy for the GEC Plessey Telecommunications joint venture, is picking up a mixed inheritance from the two companies.

On the one hand, staff in both GEC and Plessey are used to working with modern computing and telecommunications, as befits coocerns trying to sell such systems to other businesses. "It would be difficult to find an area of the two companies where they haven't penetrated," says Gargaro, who comes to the joint venture from an information technology (IT) background in Plessey.

On the other hand, the joint venture is having to weave together a patchwork of different systems. In the past, IT was the responsibility of the various constituent businesses. "That is why we have an investment in so many different vendors. The businesses tended to take the opportunity of buying what was available at the time," Gargaro explains.

So IBM features prominently at GEC's centre in Coventry; Unisys is in evidence at Plessey's private systems facility in Nottingham; McDonnell Douglas holds sway at Plessey's public systems plant in Liverpool; while over in Florida, where Plessey's US equipment subsidiary is based, Hewlett-Packard is all the rage.

Add to that the Digital Equipment Corporation minicomputers widely used by Plessey, the Apollo workstations favoured for design and the Unix systems used for software development, and you have some measure of the task confronting the joint venture in welding a coherent IT strategy.

The joint venture's top management set down key objectives to be achieved by the rethink of its approach to information technology. These included:

● Creating a single company-wide voice and data network, building on the 4,600 networked terminals in the two concerns at present.

This would allow management and technical data to flow quickly between desk-tops in the joint venture's many sites. It would also reduce the joint venture's dependence on GEC's and Plessey's own networks; in future, it would be more important to be able to communicate internally than with its parents.

● Forging a modern data base management system, which would help the company accomplish some of its other goals, such as moving towards common procurement.

● Greater efficiency in the use of information technology, which swallows £35m in current costs alone and keeps 710 workers busy across the joint venture. Richard Reynolds, managing director of the new business, hopes to get IT expenditure down to about 2.4 per cent of sales from its present 3.6 per cent in the next two-to-three years.

Managers in GEC Plessey Telecommunications are in the middle of reviewing their existing IT contracts and licence deals, and the relevance of their present systems to their new objectives. Gargaro does not believe the joint venture will standardise around one major computer vendor, although he hopes to be able to choose a single design ("architecture") for a single function, such as office automation.

Gargaro and his team are also defining the elements of a unified voice and data network and a single electronic mail service, as well as planning an education programme for users of the new system and putting in place contingency plans to cope with security, computer breakdowns and so on. Two manned computer centres, plus a range of unmanned satellites, will be sufficient to cope with all eventualities, Gargaro reckons.

To oversee the strategy, the joint venture has set up an IT executive committee, consisting primarily of non-technical line managers such as Reynolds and the managing directors of the constituent businesses.

The make-up of this committee, which will take the main decisions about the IT strategy, is designed to ensure that an efficient IT resource is seen as a company-wide priority. Below that will be an IT steering group made up of IT professionals from the individual businesses, plus a company IT co-ordinator reporting regularly to the finance director.

The joint venture has worked out a phased timetable to implement its entire programme over the next 15 months. "This has come at an opportune time. Both organisations put a lot of resources into their IT strategies 10-15 years ago. But both were getting a little old, needing revision," Reynolds explains.

"Computer integrated manufacturing already exists in the joint venture, but now we can move towards the computer integrated enterprise,"

Meat exporters' outlook worrying, says Gatt

BY WILLIAM DULLFORCE IN GENEVA

FALTERING CONSUMPTION of beef and veal in developed countries is clouding meat exporters' hopes of sustaining last year's strong recovery in world bovine meat prices through this year, says the General Agreement on Tariffs and Trade secretariat.

In its annual report on international meat markets Gatt finds other reasons, also, for being apprehensive about the exporters' outlook.

These include low feedgrain prices, high stock levels in the European Community, the economic plight of many developing countries and even the impact of the stock-exchanges crisis last October.

The secretariat says that at first glance conditions would seem to favour a continuation of last year's revival, which followed years of depressed prices.

That revival was spurred by last year's fall, of between 0.5 per cent and 1 per cent, to 44.3m tonnes, in world beef and veal output.

Output fell by 4 per cent in the US, by 7 per cent in Canada, by 6 per cent in Argentina and by 20 per cent in Uruguay. In Argentina, however, exports rose.

In the EC, cattle numbers fell by 3 per cent but heavier slaughtering kept output at the 1986 level.

Gatt says lower output in the US, Canada and Argentina resulted from slowdowns in or ends to cyclical herd-cuts.

It expects output to fall further or remain stagnant this year in several big producing countries which have completed cuts or started to rebuild herds.

However, against this further potential output fall, Gatt stacks a series of negative influences on prices.

The biggest is a predicted 2 per cent fall in consumption of beef and veal in the 27 countries participating in Gatt's arrangement regarding bovine meat.

Gatt says an important number of countries appears to have reached saturation level in meat consumption.

Factors favouring pig- and poultry-meat production even more than beef and veal include lower economic growth, health considerations adverse to red meat, and depressed feedgrain prices.

World output of poultrymeat, which has risen by about 30 per cent this decade, recorded its biggest annual rise, 6 per cent, last year, to just more than 29m tonnes.

That was largely the result of a 10 per cent rise in the US, the leading poultry-meat producer.

Among other meat types world pigmeat output dipped by 1 per cent last year to about 56m tonnes, following a 6 per cent slide in China, the biggest producer.

Sheepmeat output rose by 1 per cent, to 5.5m tonnes, due mostly to a 6 per cent rise in the EC, which with the accession of Spain and Portugal became last year the world's largest producer.

Gatt notes that in 1987 the number of cattle in the EC fell for the fourth consecutive year, by about 3 per cent, to 83m. The dairy-herd showed the biggest fall, prompted by EC introduction of dairy quotas in December 1986.

Slaughter of female cattle rose by 5 per cent. Slaughter of adult male cattle and calves fell.

EC exports of bovine meat, after reaching a record 1.1m tonnes in 1986, fell last year to about 900,000 tonnes of beef and veal and 50,000 tonnes of carcase-weight equivalent for live cattle.

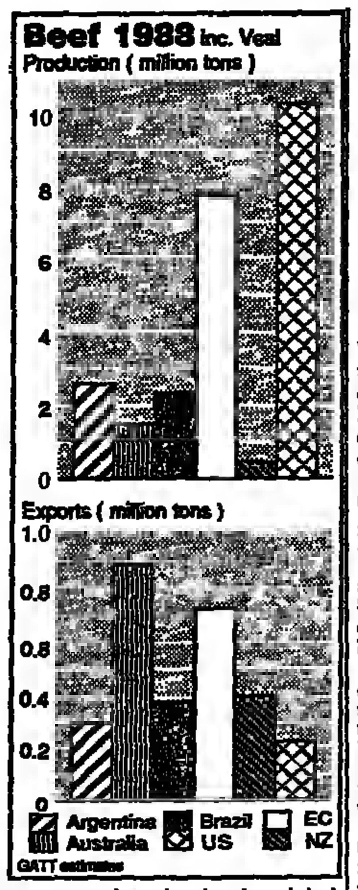
Intervention purchases under the Common Agricultural Policy at 452,000 tonnes largely exceeded sales. As a consequence, Gatt estimates, stocks at the end of last year totalled 750,000 tonnes, or 9 per cent higher than 12 months earlier.

Beef and veal imports last year to the Japanese market, where the US has been pressing for the lifting of curbs, rose by more than a quarter, to 144,000 tonnes.

Last August Tokyo announced a rise in the global quota, to 214,000 tonnes for the year to this March 31.

Gatt records a rise in Japanese consumption to about 880,000 tonnes, from 829,000 tonnes in 1986, and sees a further advance to 930,000 tonnes this year.

The International Markets for Meat 1987-88. Gatt Secretariat, 154 rue de Lausanne, 1211 Geneva 21. SFr 12.



Cadmium price hits $7.40 record

By Kenneth Gooding, Mining Correspondent

THE PRICE of cadmium ingots rose to a record $7.40 a lb in early trading on the free market yesterday, a jump of 64 per cent on the $4.50 quoted on Friday.

"We are in totally uncharted territory now," said Mr Nick French of Wogen Resources, London-based metal-traders.

Some profit-taking yesterday afternoon saw the price fall to $6.80 but a fresh surge of demand from New York took it back to $7 by the close.

The metal's fortunes have changed completely with the success of nickel-cadmium batteries which is currently fuelling demand.

Nine months ago the price was $1 a lb. The previous peak was $5.10 in May 1974.

World Bureau of Metal Statistics figures show the shortfall in output compared with consumption widened last year to about 160 tonnes a month, compared with 70 tonnes in 1986.

Annual output is about 15,000 tonnes. It is unlikely to be increased significantly because all cadmium is a by-product of zinc-mining.

The cadmium price quoted below is the Metal Bulletin price as of last Friday, which is used widely in contract negotiations.

Escondida sells 70 per cent of proposed copper output

BY CHRIS SHERWELL IN SYDNEY

ANOTHER HURDLE has been cleared by Escondida, potentially the most significant copper project for the 1990s and one destined to keep Chile as the world's biggest and lowest-cost producer.

Yesterday the project's partners said letters of intent had been signed for the purchase of 70 per cent of Escondida's proposed output to customers in Japan, West Germany and Finland.

Escondida, when developed, with an annual output of 320,000 tonnes of copper concentrates, will be the world's third-largest copper mine, after two other Chilean producers – Chiquicamata (520,000 tonnes) and El Teniente (370,000 tonnes).

It will account for about 4.5 per cent of the western world's copper output.

Partners in the project are Broken Hill Proprietary (BHP), the Australian natural resources group, with 60 per cent; RTZ Corporation, the UK mining and industrial company, 30 per cent; and a Japanese consortium led by Mitsubishi Corporation, 10 per cent.

Seven Japanese smelters will take 6.2m tonnes of copper concentrates over a 12-year period starting in 1991. The other 1.9m tonnes will go to West German and Finnish customers.

The project is expected to be given final approval this year once financing arrangements are completed and additional sales agreements concluded. Investment in the project up to completion is put at US$1.1bn.

Escondida was discovered high in the Atacama Desert of northern Chile in 1981.

Under current plans the porphyry copper deposit will be mined by the open-cut method, concentrated and sent as slurry through a pipeline to the port at Antofagasta, 98 miles (150km) to the north-west.

About 320,000 tonnes of copper contained in concentrates is expected to be produced each year over a mine-life of 52 years. Minor quantities of gold, silver and molybdenum will also be produced.

Row erupts over EC milk quota concession

BY TIM DICKSON IN BRUSSELS

A DISPUTE has erupted over the European Commission's proposal last week to ease rules governing milk quotas for France, West Germany and Belgium.

The move was announced in Brussels during the summit talks last Thursday.

It means French farmers can produce a further 100,000 tonnes, Germans an extra 33,000 tonnes, and Belgians an extra 7,000 tonnes of milk without paying the so-called superlevy on excess output.

At 100 per cent of the producer-price this penalty is proving a highly effective disincentive to surplus production.

At Ecu278 a tonne it would be worth Ecu40m(£27m) to the European Community's budget if charged on amounts now exempted.

The concession was achieved by transferring the unused quotas for so-called direct sales to consumers, to supplement levy-free quantities sant to dairies.

It was yesterday bitterly condemned by a leading Dutch dairy body.

Privately, senior European Commission officials are thought to be embarrassed:

● The announcement was made during the crucial summit talks on budget stabilisers.

● To acknowledge it contradicts official commission policy that "no further transfers from direct sales to deliveries should be contemplated."

Mr Jacques Delors, the commission's French president, publicly justified the decision last week on grounds it would largely benefit small mountain-producers "who are an important means of preserving rural life and who do not have recourse to public storage."

First phase ends in tin appeals

By Raymond Hughes, Law Courts Correspondent

THE FIRST phase of the appeals stage of the tin litigation ended in the Court of Appeal yesterday.

After four weeks – two longer than estimated – the court finished hearing the challenges by two creditors of the insolvent International Tin Council to High Court rulings that the ITC's members are not liable for its £900m debts.

Today it will begin hearing appeals against the High Court's refusal to wind-up the council or to appoint a receiver of what is alleged to be one of its assets.

The second set of appeals is expected to last well into next month, after which the three judges are likely to take several more weeks considering their judgments on the whole matter.

The expectation is that the litigation will then move to the House of Lords for a final ruling, probably in about 12 months' time, by the Law Lords.

For the past four weeks the argument before the appeal court has centred on the precise legal status of the council and its relationship with its members – the UK, 22 other states and the EC.

Two London tin traders have tried to sue the member-states for the money. They are J.H.Rayner (Mincing Lane), a £16m creditor of the council, and Maclaine Watson, owed £6m. The states other than the UK claim sovereign immunity.

Both cases failed at preliminary hearings in the High Court on the grounds that the council was a distinct legal entity separate from its members and that the tin contracts being sued on by the traders were entered into by the council on its own behalf and not as agent for its members.

Argentine price deregulation call grows

BY TIM COONE IN BUENOS AIRES

THE LIFTING of cattle price controls in Argentina last week, cautiously welcome by ranchers and traders, has spurred other farmers, and downstream industries, to demand similar deregulation across the agricultural sector.

The demand could create havoc with government attempts to control inflation.

Cattle-ranchers' representatives welcomed the announcement by Mr Enrique Figueras, Agriculture Minister.

He said maximum prices were no longer to be applied in Argentina's main cattle market at Liniers in Buenos Aires and that prices would be fixed by the free play of supply of and demand for live cattle through the market.

The move followed mounting evidence of widespread overpricing, in effect a black market.

In this, deals were made at maximum prices, for the sake of official records, while an extra sum was paid unofficially to attract an adequate supply of cattle to the capital's main meat-packing plants.

Prices surged by almost 20 per cent with the lifting of controls.

However, the caution stems from the unusual manner in which the announcement was made.

IRAN WAS willing to pay more for New Zealand lamb and wanted a four- or five-year contract for about 110,000 tonnes annually, said Mr Colin Moyle, New Zealand's Agriculture Minister, reports Reuter.

He was speaking in Auckland after visiting Tehran to sign a memorandum of understanding on trade.

He said: "We export more than NZ$300m-worth of products to Iran a year and that will probably increase considerably in future. Our imports from Iran are negligible.

"Iranians are convinced we are the most reliable and best suppliers of sheepmeat and dairy products. They don't want to go anywhere else."

It came by telephone-call from the Agriculture Minister to the organisation that oversees cattle trading at Liniers, instead of by an offical communique either from the Agriculture or Interior Commerce Ministries. The latter administers all price-controls across the economy.

As yet there is still no legal basis for the lifting of controls and there is suspicion they may be reimposed if prices rise too steeply.

The problem stems from differences within the Government, especially between Mr Figueras and Mr Ricardo Mazzorin, the Interior Commerce Minister, over the convenience and timing of deregulation.

Mr Figueras holds a sympathetic position towards the farmers. They have battled with price-controls since introduction of the ill-fated Austral Plan in June 1985 and seen cattle farming profitability fall sharply over the past decade.

That was reflected last year in a further fall in the cattle-herd to just below 50m head, the lowest level since 1971, while breeding stock culling has continued at a high rate.

Mr Mazzorin, however, is more concerned with the effect of price deregulation on the inflation rate, a subject also close to the hearts and minds of the Economy Minister and, indeed, most of the Government.

Meat and meat products make up 15 per cent of the weighted value of the consumer price index in Argentina and so any sharp rise in the cost of cattle has significant effect on the price index.

Across-the-board price rises averaging 16 per cent have been authorised by Mr Mazzorin in the past week but controls are being maintained on beef and beef products.

This has led the Argentina Meat Packers Association to complain that there is an evident contradiction and a lack of economic rationality in the measure in that it frees cattle prices but continues controls on the downstream products.

Wine prices were also deregulated last week. At the same time sugar producers obtained a court order against the Interior Commerce Ministry.

This obliged it also temporarily to lift sugar price controls, until a judicial ruling can be made on a case brought by the sugar producers, against the Government, on the legality of controls when the sugar industry is suffering heavy losses.

Papermakers in the northern province of Tucuman, where paper is made from sugar cane bagasse, are also now pushing for a lifting of price controls and considering the possibility of legal action against the Government.

The Government's aim to carry out a phased lifting of price controls this year thus already looks in danger of being stampeded into a deregulation free-for-all – with the cattle-farmers at the head of the rush.

WEEKLY METALS

All prices as supplied by Metal Bulletin (last week's prices in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 2,290-2,320 (2,290-2,330).

BISMUTH: European free market, min 99.99 per cent, $ per lb, tonne lots in warehouse, 5.25-5.50 (5.00-5.20).

CADMIUM: European free market, min 99.95 per cent, $ per lb, in warehouse, ingots 4.50-4.80 (4.00-4.10), sticks 4.50-4.80 (4.00-4.10).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 6.85-7.05 (7.00-7.10).

MERCURY: European free market, min 99.99 per cent, $ per 76 lb flask, in warehouse, 235-310 (305-315).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 3.18-3.23 (same).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 9.60-9.80 (9.30-9.50).

TUNGSTEN ORE: European free market, standard min 65 per cent, $ per tonne unit (10 kgs) WO_3, cif, 49-58 (same).

VANADIUM: European free market, min 98 per cent, V_2O_5, cif, 2.80-2.90 (same).

URANIUM: Nuexco exchange value, $ per lb, U_3O_8, 16.30 (16.65).

Venezuelan oil 'to rise'

BY RICHARD JOHNS

THE STATE corporation Petroleos de Venezuela plans to raise output from its recent oil discoveries in north-east Venezuela to more than 500,000 barrels a day in the early-1990s, Mr Juan Chacin, corporation president, said in London yesterday.

This volume would be about a third of Venezuela's 1.57m b/d quota under Opec's current production pact. It would radically change the company's exports balance.

Development in the El Furrial area had added more than 1.2bn barrels to the country's proven reserves of light and medium crudes with a low sulphur content, Mr Chacin told the Institute of Petroleum.

"Initial results indicate the existence of giant accumulations of petroleum in the north-east part of the country," he said.

Venezuela wants to obtain a higher-per-barrel return on oil exports. In recent years shipments of 140,000 b/d to 150,000 b/d of light crude and 80,000 b/d to 90,000 b/d of medium crude have been far out-weighed by sales of heavy, which have run at about 700,000 b/d.

Observers say such a switch could be opposed by the company's traditional customers which have refining-plant geared to its heavy, relatively cheap, oil.

● Total, the French oil company, has made a promising oil discovery in its Shukheir Marine permit area, Gulf of Suez. Two exploratory wells yielded 5,500 b/d and 1,500 b/d, said to be of excellent quality, of 42 to 43 degrees API gravity.

WORLD COMMODITIES PRICES

LONDON MARKETS

THE LONDON Metal Exchange nickel market's relentless upsurge continued yesterday as supply worries and low stock levels remained uppermost in traders' minds. The cash quotation's £167.50 rise to £8,717.50 a tonne extended the latest bull run to six trading days, during which time the price has climbed more than £700. In contrast the aluminium market's strong advance ran out of steam after establishing new price records during the day. The cash high grade position ended the day unchanged at $2,220 a tonne. Dealers said a retracement had been expected following the $170 rise of the previous five trading days and sellers were encouraged by news that the dispute threatening production at Norsk Hydro aluminium smelters had been settled. Continuing nearby supply tightness had influenced the early firm tone, they said, noting that stocks in LME warehouses were at the lowest level for seven years.

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$15.00-5.05y	-0.015
Brent Blend	$15.80-5.90z	-0.10
W.T.I.(1 pm est)	$16.67-6.72z	n/a

Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$164-166	
Gas Oil (Soviet)	$133-134	-1.0
Heavy Fuel Oil	$70-72	
Naphtha	$150-153	
Petroleum Argus Estimates		

Other		+ or -
Gold (per troy oz)♣	$445.50	
Silver (per troy oz)♣	639c	+3
Platinum (per troy oz)	$486.75	-3.50
Palladium (per troy oz)	$120.25	-2.00
Aluminium (free market)	$2255	+95
Copper (US Producer)	112¼-118c	
Lead (US Producer)	35.50c	
Nickel (free market)	400c	+5
Tin (European free market)	£3885	-20
Tin (Kuala Lumpur market)		
Tin (New York)	317.00c	-0.50
Zinc (Euro. Prod. Price)	$890	
Zinc (US Prime Western)	45.375c	+0.625
Cattle (live weight)†	107.34p	+0.55*
Sheep (dead weight)†	153.37p	-1.25*
Pigs (live weight)†	66.53p	+2.28*
London daily sugar (raw)	$223.40w	+0.80
London daily sugar (white)	$230.50w	+2.50
Tate and Lyle export price	£237.00	
Barley (English feed)	£109.50z	
Maize (US No. 3 yellow)	£135.00	
Wheat (US Dark Northern)	£99.75u	
Rubber (spot)♥	62.75p	
Rubber (Mar) ♥	66.75p	
Rubber (Apr) ♥	66.75p	
Rubber (KL RSS No 1 Mar)		
Coconut oil (Philippines)§	$535.00x	+7.50
Palm Oil (Malaysian)§	$412.50v	
Copra (Philippines)§	$370.00w	+5.00
Soyabeans (US)	£158.00w	-1.00
Cotton "A" index	67.25c	-0.10
Wooltops (64s Super)	578p	+3

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. w-Feb/Mar. z-Mar. u-Apr/May. x-Mar/Apr. y-Apr. † Meat Commission average fatstock prices. * change from a week ago. ♥ London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian/Singapore cents/kg.

COCOA £/tonne

	Close	Previous	High/Low
Mar	1038	1047	1055 1037
May	1060	1073	1078 1059
Jly	1083	1094	1100 1083
Sep	1102	1113	1120 1102
Dec	1127	1138	1144 1126
Mar	1158	1165	1160 1157
May	1175	1185	1186 1175

Turnover:4068 (2062) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for February 12: 1340.01 (1340.67) .10 day average for February 17: 1332.14 (1334.77).

COFFEE £/tonne

	Close	Previous	High/Low
Mar	1275	1289	1296 1277
May	1305	1317	1328 1301
Jly	1330	1339	1349 1329
Sep	1351	1359	1370 1350
Nov	1374	1381	1390 1375
Jan	1398	1403	1413 1402

Turnover: 6447 (1903) lots of 5 tonnes
ICO indicator prices (US cents per pound) for February 12: Comp. daily 1979 121.73 (121.55): 15 day average 117.77 (117.40).

SUGAR $ per tonne

Raw	Close	Previous	High/Low
Mar	194.60	191.00	194.60 160.80
May	194.00	190.60	194.00 190.00
Aug	189.40	184.80	187.60 183.60
Oct	188.80	184.60	187.00 184.00
Dec	190.00	185.40	
Mar	190.40	185.60	188.00 185.20
May	151.80	186.80	
White	**Close**	**Previous**	**High/Low**
May	232.00	230.00	230.60 229.20
Aug	231.20	230.00	231.00 230.00
Oct	230.50	228.50	229.50 227.00
Dec	230.00	229.00	230.00 228.00
Mar	233.00	233.00	232.00
May	234.00	238.00	232.00

Turnover: Raw 2745 (6441 lots of 50 tonnes; White 893 (709) .
Paris- White (FFr per tonne): May 1327, Aug 1344, Oct 1335, Dec 1335, Mar 1370, May 1380.

GAS OIL $/tonne

	Close	Previous	High/Low
Mar	134.50	135.50	135.75 134.50
Apr	134.50	135.25	135.50 134.50
May	135.00	135.25	135.50 134.75
Jun	136.00	136.00	136.50 136.00
Jul	136.25	135.25	

Turnover: 788 (2027) lots of 100 tonnes

GRAINS £/tonne

Wheat	Close	Previous	High/Low
Mar	106.20	106.40	106.30 106.15
May	108.75	108.90	108.75 108.65
Jly	111.30	111.40	111.35 111.15
Sep	101.70	101.70	101.70
Nov	103.60	103.60	103.60
Jan	105.75	105.75	
Mar	107.75	107.75	

Barley	Close	Previous	High/Low
Mar	104.00	104.75	104.75 104.00
May	106.00	106.60	106.20 105.90
Sep	97.35	97.30	
Nov	100.00	99.90	100.00 99.90
Jan	102.10	102.00	
Mar	104.45	104.35	

Turnover: Wheat 78 (186) . Barley 98 (40) lots of 100 tonnes.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 2,075 tonne
Cash	2210-30	2210-30	2240	2250-60		
3 months	2040-60	2050-70		2080-2100	2030-50	3,229 lots
Aluminium,99.5% purity (£ per tonne)						Ring turnover 37,100 tonne
Cash	1226-30	1243-7	1260	1260-1		
3 months	1151.5-2.5	1163-4	1185/1150	1176-7	1156-7	45,792 lots
Copper, Grade A (£ per tonne)						Ring turnover 38,575 tonne
Cash	1440-3	1429-32	1448/1443	1441-3		
3 months	1302-4	1287-8	1313/1286	1301-2	1291-3	70,620 lots
Copper, Standard (£ per tonne)						Ring turnover 25 tonne
Cash	1390-5	1370-80	1390	1390-5		
3 months	1270-80	1255-65		1270-80		33 lots
Silver (US cents/fine ounce)						Ring turnover 0 ozs
Cash	632-5	630-2		632-4		
3 months	642-5	640-2		642-5	645-50	671 lots
Lead (£ per tonne)						Ring turnover 13,625 tonne
Cash	375-7	358-60	375	375-6		
3 months	346.5-7	342-3	347/344	346-7	344-5	10,880 lots
Nickel ($ per tonne)						Ring turnover 1,272 tonne
Cash	8710-25	8540-60		8715-50		
3 months	8365-70	8215-25	8405/8350	8385-8400	8360-70	8,478 lots
Zinc (£ per tonne)						Ring turnover 5,200 tonne
Cash	509.5-10.5	509-10		511-11.5		
3 months	513.5-14	514-15	517/512	516-16.5	512-13	12,086 lots

POTATOES £/tonne

	Close	Previous	High/Low
Apr	146.50	147.40	148.00 146.30
May	164.00	166.00	166.50 164.00
Nov	95.50	96.80	96.50 95.50
Feb	103.50	107.00	
Apr	142.10	143.10	143.00 142.00

Turnover: 318 (230) lots of 100 tonnes.

SOYABEAN MEAL £/tonne

	Close	Previous	High/Low
Apr	130.00	130.60	130.50
Jun	126.00	127.00	126.50 126.00
Aug	124.50	126.00	124.00
Oct	125.50	128.00	125.00
Dec	130.00	130.00	
Feb	132.00	132.00	

Turnover: 150 (205) lots of 100 tonnes.

FREIGHT FUTURES $10/index point

	Close	Previous	High/Low
Apr	1570.0	1551.0	1570.0 1547.0
Jly	1415.0	1403.0	1415.0 1400.0
Oct	1430.0	1419.0	1430.0 1416.0
Jan	1405.0	1397.0	
BFI	1545.5	1544.0	

Turnover: 260 (203)

COTTON
Liverpool - Spot and shipment sales for the week ending February 12 amounted to 414 tonnes against 699 tonnes in the previous week. Moderate trading occurred with interest in Pakistani and West African growths.

JUTE
February/March c and f Dundee BTC $535, BWC $525, BTD $480, BWD $450; c and f Antwerp BTC $510, BWC $500, BWD $445, BTD $455.

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	445¼-445¾	254¼-254¾
Opening	443¾-444¼	255-255½
Morning fix	444.25	255.345
Afternoon fix	445.00	254.912
Day's high	445¼-445¾	
Day's low	443¾-444¼	

Coins	$ price	£ equivalent
US Eagle	458-463	261½-264½
Mapleleaf	458-463	261½-264½
Britannia	458-463	261½-264½
Krugerrand	444-447	253½-255½
1/2 Krug	233-242	133¼-138½
1/4 Krug	116-126	87½-72
Angel	457-452	261½-264¼
1/10 Angel	47½-52½	27¼-30
New Sov.	104¾-105¾	59¾-60½
Old Sov.	104¾-106¼	59¾-60¾
Noble Plat	480-486¼	275¾-279¼

Silver fix	p/fine oz	US cts equiv
Spot	364.40	635.00
3 months	372.85	645.95
6 months	381.70	657.45
12 months	401.15	683.15

LONDON METAL EXCHANGE TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Mar	May	Mar	May
2050		104		
2150	54			

Aluminium (99.5%)	Calls	Puts
2000	109	
2100		49

Copper (Grade A)	Calls	Puts
2250		272
245		110

US MARKETS

Precious metals were quiet, dominated by local activity and on balance easier on bank selling with light short-covering towards the close, reports Drexel Burnham Lambert. Copper was firm on fund buying. Crude oil was quiet, easing on light commission house and local selling with most activity confined to the March/April spread. Coffee fell sharply on trade profit-taking and speculative liquidation of the March contract in advance of first notice day on Friday. Cocoa eased on speculative liquidation. Sugar firmed on trade and commission house buying. Cattle futures were firm as traders squared positions in advance of yesterday's cattle-on-feed report. Hogs were steady, despite heavy runs at terminals, as the market anticipated higher cash prices as reports indicated lower-than-expected runs in the country. Pork bellies eased in response to weaker cash prices on an otherwise lacklustre day. The grains were lower across the board, reflecting lack of export business, easier cash premiums and lack of sustained interest.

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Feb	444.2	445.3	445.0	444.0
Mar	444.8	445.8	447.5	445.5
Apr	447.5	448.7	448.5	446.3
Jun	452.2	453.3	453.0	451.1
Aug	457.0	458.0	458.0	456.0
Oct	462.0	463.0	462.0	461.5
Dec	467.1	468.0	468.0	466.0
Feb	472.4	473.3	472.5	471.0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Apr	467.8	468.5	470.4	464.0
Jul	472.6	473.5	475.0	471.0
Oct	478.1	479.0	480.0	476.5
Jan	483.6	484.5	483.5	483.5
Apr	490.1	491.0	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Feb	635.5	637.0	0	0
Mar	637.5	639.0	643.5	635.5
Apr	641.4	642.9	0	0
May	646.1	647.6	651.5	645.0
Jul	654.3	655.8	660.0	653.0
Sep	662.2	663.3	665.5	665.5
Dec	675.2	676.0	680.0	674.5
Jan	679.0	679.7	0	0
Mar	688.4	688.9	0	0
May	697.6	697.9	700.0	700.0

COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Feb	108.55	106.86	108.75	106.00
Mar	105.80	102.85	100.75	103.00
Apr	102.90	98.85	0	0
May	100.40	194.85	100.40	96.50
Jul	92.20	86.70	92.00	89.00
Sep	87.20	83.20	87.00	85.25
Dec	84.20	80.70	84.50	81.30
Jan	83.70	80.30	0	0
Mar	82.80	79.70	0	0
May	82.80	79.70	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel

	Close	Previous	High/Low	
Mar	16.65	16.75	16.77	16.64
Apr	16.66	16.73	16.76	16.62
May	16.60	16.71	16.73	16.56
Jun	16.50	16.63	16.60	16.47
Jul	16.40	16.55	16.49	16.38
Aug	16.31	16.46	16.46	16.30
Sep	16.21	16.38	16.38	16.21
Oct	16.20	16.30	16.20	16.20
Nov	16.15	16.22	16.15	16.15
Dec	16.20	16.14	16.20	16.15

HEATING OIL 42,000 US galls, cents/US galls

	Close	Previous	High/Low	
Mar	46.20	46.60	46.65	46.10
Apr	45.35	45.63	45.75	45.30
May	44.60	44.90	44.90	44.55
Jun	44.15	44.50	44.40	44.15
Jul	44.15	44.50	44.45	44.15
Aug	44.50	45.00	0	0
Sep	45.40	45.70	45.40	45.40

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Mar	1660	1676	1694	1658
May	1705	1726	1743	1705
Jul	1737	1757	1770	1736
Sep	1764	1785	1794	1763
Dec	1798	1811	1810	1800
Mar	1833	1844	1841	1835
May	1858	1870	1675	1875

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Mar	136.02	138.14	139.00	135.70
May	138.91	140.77	141.50	138.60
Jul	141.20	142.59	143.15	140.50
Sep	143.30	144.70	144.75	142.30
Dec	146.50	146.99	147.00	145.05
Mar	147.25	147.00	147.80	147.75
May	147.50	148.00	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Mar	8.70	8.49	8.71	8.49
May	8.63	8.35	8.64	8.37
Jul	8.43	8.14	8.44	8.18
Oct	8.40	8.15	8.40	8.18
Jan	8.40	7.93	0	0
Mar	8.49	8.20	8.49	8.28
May	8.60	8.31	0	0

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Mar	61.70	61.42	62.12	61.45
May	62.43	62.18	62.85	62.15
Jul	62.55	62.40	63.00	62.45
Oct	60.27	60.66	60.70	60.15
Dec	59.18	58.37	59.75	58.90
Mar	60.20	60.35	60.85	60.65
May	60.75	60.85	0	0

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Mar	166.10	168.50	167.50	165.00
May	160.85	164.75	162.90	160.50
Jul	159.75	163.00	161.50	158.45
Sep	158.35	161.60	161.00	158.00
Nov	158.25	158.85	156.00	156.00
Jan	154.25	156.50	0	0
Mar	154.25	156.50	0	0
May	154.25	156.50	0	0
Jul	154.25	156.50	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

Feb 12	Feb 11	mnth ago	yr ago
1765.9	1762.5	1735.4	1614.9

DOW JONES (Base: December 31 1974 = 100)

Spot	130.58	130.58	132.45	114.12
Futures	134.48	133.87	135.00	115.09

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Mar	620/4	627/4	626/2	620/0
May	628/6	636/6	635/0	628/4
Jul	637/4	644/6	642/6	637/0
Aug	640/0	648/4	644/4	639/4
Sep	636/6	643/4	641/4	636/4
Nov	642/6	648/4	648/2	642/4
Jan	649/4	656/0	654/4	649/4
Mar	660/0	664/0	662/4	659/0
May	663/0	668/0	0	0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Mar	21.14	21.38	21.33	21.13
May	21.44	21.60	21.63	21.43
Jul	21.70	21.85	21.86	21.70
Aug	21.75	21.88	21.95	21.75
Sep	21.82	21.87	21.90	21.82
Oct	21.80	21.90	22.00	21.80
Dec	21.90	22.00	22.10	21.90
Jan	21.91	21.97	22.05	21.91

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Mar	185.4	187.2	187.0	185.0
May	183.9	186.2	185.2	183.6
Jul	184.6	187.2	185.8	184.0
Aug	185.8	187.5	186.3	185.0
Sep	186.7	187.5	187.0	186.0
Oct	187.0	189.0	187.5	186.5
Dec	188.0	189.5	189.0	187.0
Jan	188.7	189.0	189.0	188.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Mar	198/2	201/0	200/2	198/0
May	204/4	207/0	206/6	204/2
Jul	208/6	211/2	210/6	208/4
Sep	212/4	213/6	213/6	212/4
Dec	215/2	217/2	217/0	215/0
Mar	222/4	224/2	223/2	222/2
May	225/6	228/2	227/6	225/6

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Mar	331/0	332/2	333/6	330/0
May	335/0	334/0	337/0	333/2
Jul	333/0	331/0	333/4	330/0
Sep	336/6	334/6	337/0	334/4
Dec	347/4	345/0	347/4	344/0
Mar	350/0	346/4	350/0	346/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Feb	71.87	71.65	71.87	71.47
Apr	72.27	71.75	72.47	71.62
Jun	70.47	70.05	70.65	69.85
Aug	67.95	67.50	68.00	67.45
Oct	66.92	66.45	67.02	66.50
Dec	67.22	66.72	67.40	66.80
Feb	67.10	66.85	67.15	66.85

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Feb	47.57	47.25	47.75	46.97
Apr	45.30	44.90	46.47	44.80
Jun	48.35	48.07	48.60	47.90
Jul	48.40	48.07	48.45	47.90
Aug	47.27	46.92	47.50	46.92
Oct	42.55	42.57	42.95	42.50
Dec	43.15	43.15	43.40	43.60
Feb	43.10	42.75	43.10	43.05

PORK BELLIES 38,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	55.70	55.90	56.35	55.40
Mar	55.95	56.15	56.75	00.62
May	57.45	57.77	58.22	57.15
Jul	57.80	58.22	58.80	57.75
Aug	56.40	56.52	57.10	56.35

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Better sentiment for sterling

STERLING FINISHED towards its best level of the day, as the market gave its qualified approval to yesterday's economic data. A few investors were content to bide their time however, with several more key figures due between now and the Budget on March 15.

UK PSBR for January showed a net repayment of £6.3bn, which was above most expectations. Nevertheless there was still good reason to be cautious, according to Mr Chris Tinker, an analyst at Phillips and Drew. The cumulative surplus of £6.9bn so far this fiscal year was likely to be reduced before the end of the financial period, he added. This suggested that although Chancellor Nigel Lawson would probably enjoy a greater margin of flexibility, calls for a reduction in taxation had to be balanced against fears of possible overheating in the economy.

Recent figures suggest that the UK economy was extremely buoyant in 1987. UK industrial production rose by 0.6 p.c. in December giving a year on year rise of 4.8 p.c. against 3.8 p.c. in November. While manufacturing output slipped by 0.35 p.c. in December, the annualised rate was still up by 5 p.c. compared with 5.4 p.c. in November.

But analysts were again cautious, pointing out that this series of figures were usually subject to substantial revision. In addition tomorrow's bank lending figures are expected to paint a less rosy picture.

Sterling's exchange rate index finished at 74.3 up from 74.1 at the opening and 74.2 on Monday night. Dealers at one major bank reported good demand for sterling up to DM2.9860. A large number of stop loss orders were positioned at DM2.9870 and traders suggested that a break above this level would probably attract intervention by the Bank of England.

The pound closed at DM2.9850 from DM2.9800 and Y227.50 from Y227.0. It was also higher against the dollar at $1.7480 compared with $1.7460. Elsewhere it finished at FFr10.0900 from FFr10.0650 and SFr2.4500, unchanged from Monday.

The dollar showed little changed during the morning, after a firmer start, as traders awaited the return of US markets from Monday's holiday. Reaction to comments by Mr Manuel Johnson, vice-chairman of the US Federal Reserve and Mr Alan Greenspan, its chairman, was virtually non-existent. Both claimed that the US trade deficit would improve later this year.

US data due today include industrial production and housing starts which may provide some fresh stimulus. The dollar failed to make any serious attempt at breaking through the DM1.72 level, peaking at DM1.7175. It closed at DM1.7080 compared with DM1.7070 previously and Y130.20 against Y130.05. Elsewhere it finished at FFr5.7725 against FFr5.7650 and SFr1.4020 compared with SFr1.4035. On Bank of England figures, the dollar's exchange rate index was unchanged at 95.5.

D-MARK-Trading range against the dollar in 1987/88 is 1.9305 to 1.5740. January average 1.6547. Exchange rate index 148.8 against 145.9 six months ago.

There was no intervention by the Bundesbank at yesterday's fixing when the dollar rose to a three-month high of DM1.7132, up from DM1.7078 on Monday.

Trading was restricted by the early closure of many banks for local holidays, and traders seemed content to await some fresh direction, either after the start of trading in New York, or today on the release of US economic data.

£ IN NEW YORK

Feb.16	Latest	Previous Close
£ Spot	1.7485-1.7495	1.7400-1.7410
1 month	0.33-0.30pm	0.33-0.30pm
3 months	1.16-1.12pm	1.14-1.11pm
12 months	4.32-4.22pm	4.30-4.20pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Feb.16	Previous
8.30 am	74.2	74.3
9.00 am	74.1	74.3
10.00 am	74.1	74.3
11.00 am	74.1	74.3
Noon	74.2	74.2
1.00 pm	74.2	74.2
2.00 pm	74.2	74.2
3.00 pm	74.2	74.2
4.00 pm	74.3	74.2

CURRENCY RATES

Feb.16	Bank rate %	Special Drawing Rights	European Currency Unit
[illegible]	[illegible]	[illegible]	[illegible]

All SDR rates for February 15

CURRENCY MOVEMENTS

Feb.16	Bank of England Index	Morgan Guaranty Changes %
Sterling	74.3	N/A
U.S. Dollar	95.5	N/A
[illegible]	[illegible]	[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base average 1975=100) *Rates are for Feb.15

OTHER CURRENCIES

Feb.16	£	$
[illegible]	[illegible]	[illegible]

*Selling rate

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Feb.16	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.2321	+1.82	+1.04	±1.5344
Danish Krone	7.85212	7.89347	+0.53	-0.25	±1.6404
German D-Mark	2.05853	2.06614	+0.37	-0.41	±1.0981
French Franc	6.90403	6.97717	+1.06	+0.28	±1.3674
Dutch Guilder	2.31943	2.31982	+0.02	-0.76	±1.5012
Irish Punt	0.768411	0.776294	+1.03	+0.25	±1.6684
Italian Lira	1483.58	1520.34	+2.48	+2.15	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

POUND SPOT- FORWARD AGAINST THE POUND

Feb.16	Day's spread	Close	One month	% p.a.	Three months	% p.a.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Belgian rate is for convertible francs. Financial franc 62.60-62.70. Six-month forward dollar 1.99-1.94cpm 12 month 3.86-3.76cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Feb.16	Day's spread	Close	One month	% p.a.	Three months	% p.a.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 35.80-35.90.

EURO-CURRENCY INTEREST RATES

Feb.16	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long term Eurodollars: two years 8-7¾ per cent; three years 8¼-8 per cent; four years 8½-8¼ per cent; five years 8¾-8½ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Feb.16	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES

Muted reaction to good PSBR

GILT FUTURES moved up on Liffe after a higher than expected repayment figure on the January UK PSBR, but reaction was somewhat muted. The market analysed the figures and noted a high level of corporation tax, indicating strong growth, which is regarded as bearish for interest rates.

The time lag on tax payments means the figure indicates the level of growth some months ago however, while another figure published yesterday showed recent growth is not as strong. December UK manufacturing output fell 0.35 p.c., in spite of an overall 0.6 p.c. rise in industrial production.

Revisions to back figures made traders reluctant to read too much into the production figures, but tomorrow's data on average earnings will be watched carefully for any increase, and further evidence of economic overheating.

Ms Evelyn Brodie, senior UK economist at Morgan Grenfell, noted fears about overheating from high wage levels at a time when the economy is showing signs of slowing, but said this should not result in higher interest rates, for fear of further choking off growth.

Tomorrow's other major economic announcement will be on UK bank lending, which is expected to be very strong. Morgan Grenfell forecasts a figure of around £5bn, while Nomura Research Institute expects £4bn, in line with the market average.

Mr Nick Parsons, at Union Discount said a lending figure of £4bn to £4.5bn could be expected, but the high level of corporation tax in the PSBR suggests possible borrowing to pay tax demands, and that this could push the figure above £5bn. He added this will not be well received on the Liffe market, and there were signs that some traders were liquidating long positions ahead of the news.

LIFFE LONG GILT FUTURES OPTIONS

[illegible]

LIFFE US TREASURY BOND FUTURES OPTIONS

[illegible]

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

[illegible]

LIFFE £/$ OPTIONS

[illegible]

LONDON SE £/$ OPTIONS

[illegible]

PHILADELPHIA SE £/$ OPTIONS

[illegible]

LIFFE- EURODOLLAR OPTIONS

[illegible]

LONDON

20-YEAR 12% NOTIONAL GILT

[illegible]

7-10 YEAR 9% NOTIONAL GILT

[illegible]

6% NOTIONAL LONG TERM JAPANESE GOVT. BOND

[illegible]

THREE-MONTH STERLING

[illegible]

FT-SE 100 INDEX

[illegible]

THREE MONTH EURODOLLAR

[illegible]

U.S. TREASURY BONDS 8%

[illegible]

CURRENCY FUTURES

POUND-$ (FOREIGN EXCHANGE)

[illegible]

IMM-STERLING $ per £

[illegible]

LIFFE-STERLING £25,000 $ per £

[illegible]

CHICAGO

U.S. TREASURY BONDS (CBT) 8%

[illegible]

U.S. TREASURY BILLS (IMM)

[illegible]

SWISS FRANC (IMM)

[illegible]

JAPANESE YEN (IMM)

[illegible]

DEUTSCHE MARK (IMM)

[illegible]

THREE-MONTH EURODOLLAR (IMM)

[illegible]

STANDARD & POORS 500 INDEX

[illegible]

MONEY MARKETS

UK rates ease

THE SLIGHT downward drift in interest rates continued on the London money market yesterday, encouraged by a surprisingly high repayment in the January UK Public Sector Borrowing Requirement, and the strength of sterling against the D-Mark. Three-month interbank eased to 8¾-8⅝ p.c. from 9⅛-9 p.c.

Credit conditions were very comfortable, with dealers commenting that institutions are generally long of cash at present, reflecting doubts about the future direction of the financial markets.

UK clearing bank base lending rate 9 per cent from February 2

A main concern is about tomorrow's January bank lending, although a high figure is already discounted. On the same day dealers will also watch carefully for any rise in the underlying level of average earnings.

The Bank of England initially forecast a flat money market position, but revised this to a shortage of £100m at noon.

The authorities did not operate in the market before lunch, but in the afternoon bought £7m bank bills in band 4 at 8⅝ p.c.

Bills maturing in official hands, repayment of late assistance, and a take-up of Treasury bills drained £342m. This was roughly balanced by Exchequer transactions adding £260m to liquidity, a fall in the note circulation of £55m, and bank balances above target of £5m.

In Paris the Bank of France left its money market intervention rate at 7¼ p.c. when seven day's securities repurchase agreement tender. The central bank injected FFr37.6bn into the money market, in an agreement running until March 4. This more than replaces the FFr33.5bn draining from the market today, as an earlier agreement expires. The Bank of France met 40 p.c. of the amount bid for by banks.

In Frankfurt call money rose to 3.45 p.c. from 3.40 p.c. in thin trading, influenced by the Carnival holiday period. Banks are tending to bid for funds to increase reserve holdings at the Bundesbank. These averaged DM53.9bn for the first 11 days of February, compared with expectations of a minimum DM54bn requirement.

In New York the Federal Reserve added $1.5bn of temporary reserves to the money market, via customer repurchase agreements. The Fed added money as Federal funds rose to 6¾ p.c. from an average of 6⅝ p.c. on Friday.

FT LONDON INTERBANK FIXING

(11.00 a.m. Feb.16) 3 months US dollars		6 months US Dollars	
bid 6⅝	offer 6¾	bid [illegible]	offer 7

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime)

[illegible]

Feb.16	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON MONEY RATES

Feb.16	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

EUROPEAN OPTIONS EXCHANGE

Series		Feb. 88 Vol	Feb. 88 Last	May 88 Vol	May 88 Last	Aug. 88 Vol	Aug. 88 Last	Stock
GOLD C	$ 460	4	0.20	1	13.50	25	22	$ 445
GOLD C	$ 480	-	-	-	7.50	-	-	$ 445
GOLD C	$ 520	-	-	-	2	-	6.50	$ 445
GOLD P	$ 400	-	-	-	3	1	6.70	$ 445
GOLD P	$ 420	-	0.10	2	6.40	-	-	$ 445
GOLD P	$ 440	-	-	11	10.50	-	16	$ 445
GOLD P	$ 460	12	16.50	-	-	-	-	$ 445
		Feb. 88		Mch. 88		Apr. 88		
EOE Index C	Fl. 165	6	22.80	34	24.50	5	25	Fl. 188.92
EOE Index C	Fl. 170	8	18.50	4	20	-	-	Fl. 188.92
EOE Index C	Fl. 175	79	13.20	2	15.40	-	-	Fl. 188.92
EOE Index C	Fl. 180	317	8.10	33	11.50	25	14.20	Fl. 188.92
EOE Index C	Fl. 185	496	3.90	421	8.50	17	11.50	Fl. 188.92
EOE Index P	Fl. 165	-	-	13	0.80	2	2	Fl. 188.92
EOE Index P	Fl. 170	105	0.10	31	1.40	-	-	Fl. 188.92
EOE Index P	Fl. 175	10	0.10	39	2.80	-	-	Fl. 188.92
EOE Index P	Fl. 180	30	0.50	16	4	24	5.70	Fl. 188.92
EOE Index P	Fl. 185	257	1.10	375	5.60 A	35	7.80	Fl. 188.92
S/Fl C	Fl. 180	5	12.50 A	30	12.50 A	-	-	Fl. 192.05
S/Fl C	Fl. 185	76	7.20	27	8	-	-	Fl. 192.05
S/Fl C	Fl. 190	289	2.50 A	84	3.70	-	-	Fl. 192.05
S/Fl C	Fl. 195	-	-	530	1.40	150	2.40	Fl. 192.05
S/Fl P	Fl. 175	-	-	-	-	10	0.50	Fl. 192.05
S/Fl P	Fl. 185	682	0.05	4	0.50	8	1.70	Fl. 192.05
S/Fl P	Fl. 190	15	0.50	182	1.90 B	7	3.40	Fl. 192.05
		Apr. 88		Jul. 88		Oct. 88		
ABN C	Fl. 40	1157	1.60	364	2.70	87	3.20	Fl. 39.80
ABN P	Fl. 40	190	1.60	24	3.50	36	4.40	Fl. 39.80
AEGON C	Fl. 65	290	4 B	77	5	-	-	Fl. 67.70
AEGON P	Fl. 65	71	1.50	-	-	-	-	Fl. 67.70
AHOLD C	Fl. 80	5	1.30	53	2	-	-	Fl. 74.70
AHOLD P	Fl. 65	36	0.60	-	-	-	-	Fl. 74.70
AKZO C	Fl. 100	827	2.70	335	4.60	58	6.70	Fl. 95.20
AKZO P	Fl. 90	187	2.30	145	6.40 B	33	8	Fl. 95.20
AMEV C	Fl. 40	291	5.30	27	5.90	50	6.50	Fl. 44.90
AMEV P	Fl. 40	27	0.70	-	-	-	-	Fl. 44.90
AMRO C	Fl. 65	77	1.20	431	2	26	2.70	Fl. 61.60
AMRO P	Fl. 60	41	1.50	11	3.20	-	-	Fl. 61.60
ELSEVIER C	Fl. 45	445	3.30	84	4.90	11	6.40	Fl. 46.60
ELSEVIER P	Fl. 45	37	1.50	122	3	-	-	Fl. 46.60
GIST-BROC. C	Fl. 30	483	2	73	3	51	3.50	Fl. 30
GIST-BROC. P	Fl. 30	300	2 A	57	3.50 B	-	-	Fl. 30
HEINEKEN C	Fl. 140	10	1.50	80	3.40	-	-	Fl. 121
HEINEKEN P	Fl. 110	30	2.30	43	4.50	-	-	Fl. 121
HOOGOVENS C	Fl. 30	454	1.60	108	2.50 A	29	3.20	Fl. 28.20
HOOGOVENS P	Fl. 25	43	0.80	5	1.50	-	-	Fl. 28.20
KLM C	Fl. 35	435	1	88	2.10	113	2.60	Fl. 32.50
KLM P	Fl. 30	246	0.90	63	1.60	1	2.50	Fl. 32.50
NEDLLOYD C	Fl. 210	436	7.50	-	-	-	-	Fl. 191.50
NEDLLOYD P	Fl. 180	125	10.90	20	18 B	-	-	Fl. 191.50
NAT.NED. C	Fl. 55	1056	3.60	233	4.20	-	-	Fl. 56.90
NAT.NED. P	Fl. 60	10	3.90	546	5	410	5.80	Fl. 56.90
PHILIPS C	Fl. 27.50	471	1.60	449	2	115	2.70	Fl. 27.70
PHILIPS P	Fl. 25	190	0.80	60	1.20	6	2	Fl. 27.70
ROYAL DUTCH C	Fl. 220	228	4 A	72	5.70	-	-	Fl. 213.90
ROYAL DUTCH P	Fl. 220	147	9.50	156	17.50	7	22	Fl. 213.90
ROBECO P	Fl. 80	10	1.30	-	-	-	-	Fl. 86.10
UNILEVER C	Fl. 130	393	0.70	16	2.20	-	-	Fl. 112.50
UNILEVER P	Fl. 110	122	3.50	80	7.40	-	-	Fl. 112.50

TOTAL VOLUME IN CONTRACTS : 37,245

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%		%		%
ABN Bank	9	Citibank NA	9	Nat. Bk. of Kuwait	9
Adam & Company	9	City Merchants Bank	9	NatWestminster	9
AAB - Allied Arab Bk	9	Clydesdale Bank	9	Northern Bank Ltd	9
Allied Irish Bank	9	Comm.Bk.N.East	9	Norwich Gen. Trust	9
American Exp.Bk	9	Consolidated Cred	9	PK Finans. Intl(UK)	9½
Amro Bank	9	Co-operative Bank	*9	Provincial Bank PLC	10
Henry Ansbacher	9	Cyprus Popular Bk	9	R. Raphael & Sons	9
ANZ Banking Group	9	Dunbar Bank PLC	9	Roxburghe G'rantee	9½
Associates Cap Corp	10	Duncan Lawrie	9	Royal Bk of Scotland	9
Authority Bank	9	Equatorial Bank plc	9	Royal Trust Bank	9
E & C Merchant Bank	9	Exeter Trust Ltd	9½	Smith & Williamson Secs.	9
Banco de Bilbao	9	Financial & Gen. Sec	9	Standard Chartered	9
Bank Hapoalim	9	First Nat. Sec. Ltd	9½	TSB	9
Bank Leumi (UK)	9	● Robert Fleming & Co.	9	UDT Mortgage Exp	♦10.2
Bank Credit & Comm	9	Robert Fraser & Ptnrs.	10	United Bk of Kuwait	9
Bank of Cyprus	9	Girobank	9	United Mizrahi Bank	9
Bank of Ireland	9	Grindlays Bank	9	Unity Trust Bank Plc	9
Bank of India	9	● Guinness Mahon	9	Western Trust	9
Bank of Scotland	9	HFC Trust & Savings	9	Westpac Bank Corp.	9
Banque Belge Ltd	9	● Hambros Bank	9	Whiteaway Laidlaw	9½
Barclays Bank	9	Heritable & Gen Inv Bk	9	Yorkshire Bank	9
Benchmark Bank PLC	9	● Hill Samuel	§9		
Berliner Bank AG	9	C. Hoare & Co.	9		
Brit Bk of Mid East	9	Hongkong & Shangh	9		
● Brown Shipley	9	Lloyds Bank	9		
Business Mtge Tst	9	Meghraj Bank Ltd	9		
CL Bank Nederland	9	Midland Bank	9		
Central Capital	9	● Morgan Grenfell	9		
● Charterhouse Bank	9	Mount Bnkg Corp.	9		

● Members of the Accepting Houses Committee. * 7 day deposits 4.00%. Sumwise 6.66%. Top Tier-£2,500+ at 3 months' notice 8.51%. At call when £10,000+ remains deposited. ♦ Mortgage base rate. § Demand deposit 4.00%. Mortgage 10% - 10.25%

FT CROSSWORD No.6,558

SET BY VIXEN

ACROSS

1 Ancient stone may be seen right and left in approach to the church (8)
5 The footwear of nearly everybody on the beach (6)
9 Newly built homes – and so good looking (8)
10 A resort not backed but held in contempt (4,2)
11 Some soldiers followed as told (8)
12 A little cavern always most spectacular in spring (6)
14 Run a German article about diminutive holy man (10)
18 For a Tory it's an anomaly still (10)
22 The pig to obtain is a young animal (6)
23 Damage making one charge after a pupil (8)
24 The most boring dunderhead tries to change (6)
25 Dispatch concerning support at one point (8)
26 The youth embracing a girl will be chastised (6)
27 Fool, like wrong-doing criminal (8)

DOWN

1 Be consistent and firm in this place (6)
2 Fancy duck aren't properly presented (6)
3 Invention involving a craft for a little girl (6)
4 Encouraging the coming round to do repairs (10)
6 Very quiet in drink – quiet, that is, when there's food (6,3)
7 Discharge a public school admitted in time (8)
8 Giving pounds and pounds or a large figure for a letter (8)
13 They don't look people in the eye when talking (3-7)
15 Bad lads hope to make such a bloomer! (8)
16 A body of lawyers wins contracts (8)
17 The film buff can see it, but not in its original form (8)
19 The man had time to raise a plant (6)
20 Hector has to accommodate artists (6)
21 Always included in directions to find the river (6)

Solution to Puzzle No.6,557

SEADOG HELLBENT
RECANTS TENANCY
IRIS ADMIRATION
HONEST REDHEAD
ADORING FRIGID
CUTTLEFISH MINI
DONEGAL EDITING
CONTRAST DRUMUP

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

FT UNIT TRUST INFORMATION SERVICE

Scimitar Asset Management Ltd
8 Crosby Sq, London EC3A 6AQ 01-588 6993/4/5

Scimitar Global Gth Ac	26.6	28.4	+0.5	–
Do. Income	26.5	28.2	+0.4	0.19
Scimitar European Acc	19.9	21.2	+0.4	–
Do. Income	19.9	21.2xd	+0.2	0.11
Scimitar UK Eq Inc Acc	35.3	37.2	–	–
Do. Income	32.9	34.7xd	-0.9	5.65
UK Cap Gth Acc	22.2	23.4	+0.3	0.75
Scimitar Pac Basin Acc	28.7	30.6	-0.5	–
Scimitar Mangd Exempt*	135.8	141.5xd	+0.4	–

*Unauthorised

Scottish Equitable Fund Mgrs. Ltd(z)
28 St Andrews Sq, Edinburgh 031-558 1051

Intal Income Units	126.8	134.9	+6.1	3.50
Intal Accum Units	194.0	206.4	+7.9	3.50
UK General Acc	36.4	38.9	–	3.38
UK General Inc	35.1	37.5	+0.1	3.38
American	26.8	28.7	–	2.13
European	34.6	37.8	+0.4	1.26
Japan	56.5	60.4	+0.4	0.03
Technology	33.9	36.3	+0.2	2.29
Performance Trusts				
Far East Perf Tst	17.4	18.6	+0.2	2.00
High Inc Perf Tst Inc	22.9	24.5	–	5.36
High Inc Perf Tst Acc	23.4	25.0	–	5.36
Worldwide Tech Perf Tst	27.0	28.9	–	2.71

Scottish Life Investments(z)
19 St Andrew Sq, Edinburgh 031-225 2211

Nelson (UK)	201.3	215.4	+0.1	2.70
Columbus (US)	130.0	139.1	+0.2	1.35
Marco Polo (Pac)	207.5	222.0	+2.6	0.34
Da Vinci (Eur)	216.7	231.8	+2.1	1.71
Drake (Wwd)	50.7	54.3	+0.1	2.56

Scottish Mutual Investment Managers Ltd
109 St Vincent St, Glasgow G2 5HN 041-248 6100

UK Equity	195.8	208.4	+0.4	2.90
UK Smlr. Cos. Equity	201.4	214.3	+0.6	2.09
UK Special Situations	57.6	61.5	+0.3	3.28
Income Plus	50.7	54.0	+0.1	5.50
European	156.1	166.1	+1.1	1.81
Far Eastern	48.2	51.3	+0.6	[illegible]

Trades Union Unit Trust Managers
100 Wood Street, London EC2 01-686 4355

TUUT Feb 1	213.5	224.0	–	3.18

Triton Fd Mngrs. Ltd.
Royal Lde. Hse. Colchester CO1 1RA 0206 764400

Triton General	141.0	151.7	-0.1	1.63

Tyndall Unit Trust Managers Limited
25 Bucklesbury, London EC4N 248 3999

Convertible & General	58.4	61.9xd	–	6.43
Accum Units	59.4	63.1	+0.1	–
Income	78.4	83.1	+0.3	5.17
Accum Units	78.4	83.1	+0.1	–
Smaller Co's	82.5	89.2xd	+0.1	1.82
Accum Units	83.9	90.2	+0.1	–
UK Growth	85.7	90.8	–	2.88
Accum Units	85.7	90.8	–	–
Pacific Gold Tst Acc	47.6	50.5	–	–

UK Unit Trust Managers Ltd
Worthing Road, Horsham, RH12 1SL 0403 40033

British Growth Fd	55.1	58.7	–	1.82
Technical Analysis Fd	48.5	51.6	-0.3	3.52

Unit Trust Account & Mgmt. Ltd
20 Copthall Ave, London, EC2R 7PA 01-588 6064
Advisors: Henderson Crosthwaite Ltd

Friars Hse Cap Fd	171.3	182.2	–	1.44
Friars Hse Inc Fd	149.0	154.8	–	3.85

United Charities Unit Trusts (a)(c)(g)
Unicorn Hse, 252 Romford Rd, E7 01-534 5544

United Charities	165.3	175.8	-0.4	4.61

Vanguard Trust Managers Ltd
65 Holborn Viaduct, London EC1A 2EU 01-236 3053
Dealing Line: 01-236 2468

Glenfriars	178.2	189.6	–	1.54
(Accum Units)	181.7	193.2	–	–
Far East & Gen	53.3	56.7	–	–
(Accum Units)	53.3	56.7	–	–
Master Portfolio	64.587	66.243xd	+0.123	3.32
(Accum Units)	66.377	68.079	+0.127	–
American & Gen	56.7	60.3	-0.1	2.19

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Phoenix Assurance Co Ltd
Phoenix House, Redcliff Hill, Bristol 0272 294941
Life Assurance Funds

Wealth Ass.	365.4	384.7	—	—
Eb'r Ph. Eq.	334.1	350.3	—	—
Pension Plan Funds				
Phoenix				
UK Equity Acc.	158.1	166.4	+0.2	—
International Acc.	126.1	132.7	+0.2	—
Property Acc.	123.3	129.7	+0.2	—
Fixed Interest Acc.	150.2	158.1	+0.2	—
Money Acc.	136.3	143.4	+0.5	—
Bldg. Soc. Link Acc.	133.2	140.2	—	—
Special Mnged. Acc.	142.0	149.4	+0.2	—
Phoenix/Framlington				
Intl. Growth Acc.	84.6	89.0	+0.4	—
Amer. & Gen. Acc.	78.6	82.7	+1.2	—
Capital T. Acc.	167.8	176.6	+0.5	—
Japan & Gen Acc.	178.5	187.8	+2.2	—
American Turn. Acc.	79.1	83.2	+1.0	—
Recovery Tst. Acc.	157.4	167.7	+2.4	—
Special Mngd Acc.	138.0	145.2	+0.8	—
Phoenix '67				
International Acc.	120.7	127.0	+1.1	—
US & General Acc.	89.2	93.8	+0.6	—
Amer. Spec. Sit. Acc.	61.9	65.1	+0.4	—
Japan & General Acc.	171.0	180.0	+1.9	—
Far East & Gen. Acc.	135.0	142.1	+1.3	—
UK Capital Acc.	166.6	175.3	+1.3	—
European Acc.	132.4	139.3	+1.6	—
Special Mngd. Acc.	122.1	128.5	+1.0	—

Pioneer Mutual Insurance Co Ltd
16 Crosby Rd, N. Waterloo, Liverpool 051-928 6655

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

1987/88 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
		"Shorts" (Lives up to Five Years)				
102¼	99	Exch 10½pc '88	100	—	[illegible]	9.18
101	98	Treas 9¾pc Cv '88	100	+⅛	9.74	9.35
98	93	Transport 3pc '78–88	98	+⅛	[illegible]	6.97
101	98	Treas. 9½pc '88	100	+⅛	[illegible]	9.37
105	101	Treas 11½pc 1989	103xd	+⅛	[illegible]	9.46
102	97	Treas 9½pc Cnv 1989	100	+⅛	[illegible]	9.41
96¼	89¼	Treas 3pc 1989	95	—	[illegible]	6.57
104	99	Treas 10½pc 1989	101	+⅛	[illegible]	9.54
103	98½	Exch 10pc 1989	100⅝	+⅛	[illegible]	9.58
105	100	Exch 11pc 1989	102	+⅛	[illegible]	9.62
96¼	89	Treas 5pc 1986–89	95⅝	–⅛	[illegible]	7.70
108	99	Exch 10¼pc Cv '89	102	+⅛	[illegible]	8.74
111	104	Treas 13pc 1990‡‡	106	+⅛	[illegible]	9.52
106½	100	Exch 11pc 1990‡‡	102⅝	+⅛	10.73	9.57
110	103	Exch. 12½pc 1990	105½xd	+⅛	11.86	9.59
92	84½	Treas. 3pc 1990	91	—	3.27	7.10
100	93	Treas 8¼pc 1987–90‡‡	98	–⅛	8.37	8.93
101	98	Treas. 8pc Ev 1990	99	+¼	8.07	8.40
105	97½	Treas. 10pc Cv 1990	101	+⅛	9.90	9.55
91	81	Exch 2½pc 1990	88	—	2.81	6.93
110	102	Treas. 11¾pc 1991	105½	+⅛	11.16	9.59
95	87¼	Funding 5¾pc '87–91‡‡	92	—	6.20	8.40
90	80¼	Treas 3pc 1991	87	—	3.41	7.22
110	98½	Treas 10pc Cv '91 ‡‡	102	+⅛	9.75	9.11
109	101	Exch. 11pc 1991	104½	+¼	10.55	9.57
99	91	Treas. 8pc 1991	95½	+⅛	8.38	9.43
116	107	Treas 12¾pc 1992‡‡	110¼	+⅛	11.58	9.60
106	97	Treas 10pc 1992	101xd	+⅛	9.87	9.60
99½	90	Treas. 8pc 1992 ‡‡	95	+⅛	8.42	9.46
108	99½	Treas 10½pc Cv 1992‡‡	103	+⅛	10.19	9.61
86	79	Treas. 3pc 1992	83	+⅛	3.59	7.51
115	105	Exch. 12¼pc '92	109½xd	+⅛	11.21	9.66
121	110	Exch 13½pc 1992	114xd	+⅛	11.84	9.63
		Five to Fifteen Years				
107	97	Treas 10pc 1993‡‡	101⅝	+⅛	9.83	9.56
118	107½	Treas 12½pc 1993‡‡	113	+⅛	11.18	9.64
95	82¼	Funding 6pc 1993‡‡	91xd	+⅛	6.56	7.91
125	113¼	Treas 13¾pc 1993‡‡	117	+⅛	11.71	9.71
129	117½	Treas 14½pc 1994‡‡	121xd	+⅛	11.92	9.69
124	112	Exch 13½pc 1994	116¼	+⅛	11.56	9.80
107	97	Treas. 10pc Ln. 1994‡‡	101	+⅛	9.83	9.62
120	106	Exch. 12½pc 1994	112xd	+⅛	11.08	9.79
103¼	92	Treas 9pc 1994‡‡	97½	+⅛	9.22	9.48
118¼	105	Treas 12pc 1995	110	+⅛	10.82	9.79
84¼	76	Exch 3pc Gas 90–95	81	+⅛	3.66	6.14
109	97¼	Exch. 10¼pc 1995	102	+⅛	9.97	9.70
123	110	Treas 12¾pc 1995‡‡	115	+⅛	11.02	9.79
130	116¼	Treas. 14pc '96	121	+⅛	11.50	9.95
102	92	Treas. 9pc 1992–96‡‡	97xd	+⅛	9.24	9.46
139	123	Treas 15¼pc 1996‡‡	129⅝	+⅛	11.78	9.92
127	113	Exch 13¼pc 1996‡‡	119	+¼	11.13	9.81
89	81¼	Redemption 3pc 1986–96	84	+⅛	3.54	5.22
108	95⅝	Conversion 10pc 1996	101⅝	+⅛	9.86	9.75
128	113½	Treas 13¼pc 1997‡‡	119	+⅛	11.06	9.85
111	98	Exch 10½pc 1997	104xd	+¼	10.07	9.77
101	88	Treas 8¾pc 1997‡‡	94⅝xd	+¼	9.24	9.61
46	42½	Tr 8¾pc Ln "C" 1997 (50pd)	44⅝	+¼	9.24	9.62
140	123	Exch 15pc 1997	130	+⅛	11.52	10.03
106	93	Exch. 9¾pc 1998	99	+¼	9.76	9.76
88	78	Treas 6¾pc 1995–98‡‡	83	+⅛	8.10	9.30
145	128	Treas. 15½pc '98‡‡	135⅝	+⅛	11.45	10.00
122	107	Exch. 12pc 1998	113	+⅛	10.55	9.87
106	92	Treas 9½pc 1999‡‡	99	+¼	9.57	9.59
124	109	Exch. 12¼pc 1999	115	+⅛	10.59	9.88
113	98½	Treas. 10½pc 1999	105	+⅛	10.00	9.75
111	96	Conversion 10¼pc 1999	103	+⅛	9.92	9.75
100¼	86	Treas. 8½pc Ln 2000‡‡	92	+⅛	9.17	9.53
103	89½	Conversion 9pc 2000‡‡	95xd	+⅛	9.40	9.60
131	114	Treas. 13pc 2000	121	+⅛	10.67	9.91
110	95	Treas 10pc 2001	102xd	+⅛	9.76	9.66
134	118	Treas. 14pc '98–01	125⅝	+⅛	11.19	10.01
108	93	Conversion 9¾pc 2001	100	+⅛	9.66	9.63
122⅝	107	Exch. 12pc '99–02	113	+⅛	10.54	9.89
110	96	Conversion 10pc 2002	102	+⅛	9.71	9.60
109	94	Treas 9¾pc 2002	101xd	+¼	9.64	9.59
103	89	Exch. 9pc 2002	95	+⅛	9.40	9.53
		Over Fifteen Years				
136	119	Treas. 13¾pc 2000–03	126	+⅛	10.85	9.94
111	96	Treas 10pc 2003	103xd	+⅛	9.65	9.54
121	105	Treas. 11½pc 2001–04	112⅞xd	+⅛	10.18	9.73
111	96	Treas. 10pc 2004	103	+⅛	9.63	9.52
59⅞	51¼	Funding 3½pc '99–04	56½	+⅛	6.22	8.48
107	92⅞	Conversion 9½pc 2004	99	+¼	9.50	9.50
107⅝	92	Conversion 9½pc 2005	100	+⅛	9.49	9.48
116	101	Exch. 10½pc 2005	108xd	+⅛	9.66	9.48
132	115	Treas 12½pc 2003–05	123½	+⅛	10.15	9.61
94	81¼	Treas. 8pc 2002–06‡‡	87	+⅛	9.12	9.40
110¼	95	Conversion 9¾pc 2006	102¼	+⅛	9.53	9.48
126¼	108	Treas. 11¾pc 2003–07	116	+⅛	10.07	9.61
99	85	Treas 8½pc 2007 ‡‡	92	+¼	9.18	9.33
142	123	Treas. 13½pc '04–08	131	+⅛	10.24	9.58
104	89	Treas. 9pc 2008 ‡‡	96	+¼	9.29	9.33
102	90¼	Treas. 9pc Ln 2008 "A"	96	+⅛	9.29	9.33
94	81	Treas 8pc 2009	87⅞	+⅛	9.11	9.31
101	89⅞	Conv 9pc Ln 2011	96⅝	+¼	9.31	9.35
69⅝	59⅞	Treas. 5½pc 2008–12‡‡	64xd	+¼	8.48	9.10
91⅞	79	Treas. 7¾pc 2012–15‡‡	85	+⅛	9.12	9.27

BRITISH FUNDS – Contd

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

LONDON SHARE SERVICE

AMERICANS – Contd

1987/88 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
39	21	Rep NY Corpn $5	24½	–⅛	$1.20	–	2.7
18¾	8¾	Rockwell Intl. $1	10½		72c	–	3.8
30½	16¼	Sara Lee $1(1/3)	22½xd	–⅛	$1.20	–	2.9
11½	8½	Saul (B. F.) $1	10¼		20c	–	1.1
27½	21¼	Southwestern Bell $1	22		$2.32	–	5.8
22¼	994p	♥Staley Continental‖	12½		80c	–	3.5
44½	21⅞	Sun Co. Inc. $1	32¼xd		$3.00	–	5.1
42½	22¼	TRW Inc. $0.625	27¼xd		b$1.60	–	3.2
37¾	21	Tenneco $5	22⅞xd		$3.04	–	7.3
270	149½	Do. 10pcLn.Stk. 91-5	155		10%	–	f4.7
29⅞	15⅞	Texaco $6.25	21⅞	–⅛	$3.00	–	7.5
74¼	36¾	Time Inc. $1	51⅛		$1.00	–	1.1
30½	15	Transamerica $1	19⅛		$1.84	–	5.3
14⅞	1¼	Transworld Corp $5	969p		20c	–	1.1
27¼	12¼	TRINOVA Corp	18		56c	–	1.7
24½	12⅝	♥USX $1	17⅞		$1.20	–	3.7
37¾	16¾	Utd. Technologies	27½		$1.40	–	3.6
38⅝	25⅞	US West‖	30¾		$3.20	–	5.8
30½	17¼	Waste Management $1	28⅛		36c	–	1.0
31⅝	11⅝	Whirlpool $1.0	16		–	–	–
37⅝	16½	♥Woolworth $3½	23½	–⅛	$1.32	–	3.0

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES – Contd

ELECTRICALS

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INDUSTRIALS (Miscel.) – Contd

INSURANCES

LONDON SHARE SERVICE

INSURANCES – Contd

LEISURE

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING, ADVERTISING – Contd

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES – Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND – Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS – Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES – Contd

Tins

Miscellaneous

THIRD MARKET

1987/88 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
95	50	Lyax Tech. 5p	50		b–	–	–	5.7
133	95	M.L. Laboratories 1p	130	+1	–	–	–	–
180	87	Medirace 10p	120	+2	–	–	–	–
38	23	Norton Group 5p	30	–1	–	–	–	–
98	38	♥Ovoca Gold IR 2p	40	–1	–	–	–	–
48	36	Propeller 1p	36		W–	–	–	11.3
*82	14	Publishing Hldgs. 5p	14xr	–2	–	–	–	8.4
128	70	Seacon Hldgs.	70	–3	–	–	–	10.6
27	18	Stats Hldgs. 5p	25	–1	–	–	–	63.9
4½	3	Swanyard Studios 1p	3½		–	–	–	18.5
87	38	Theme Holdings	48	–1	1.0	2.9	2.9	25.7
36	28	Tomorrows Leisure 20p	30	–1	–	–	–	12.0
210	128	UPL Group 10p	138		12.41	2.8	2.5	19.5
140	103	Unit Group	140		R4.6	2.5	4.5	(10.0)
85	85	Video Tape Recording 5p	85		L2.3	2.3	3.7	12.2

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 27 per cent and allow for value of declared distribution and rights.

- ● Tap Stock
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ● Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ◆ Merger bid or reorganisation in progress
- ● Not comparable
- ◆ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

IRISH

TRADITIONAL OPTIONS

3-month call rates

Industrials

Property

Oils

Mines

A selection of Options traded is given on the London Stock Exchange Report Page

Account Dealing Dates

First Dealings	Option Declarations	Last Dealings	Account Day
Feb 8	Feb 18	Feb 19	Feb 29
Feb 22	Mar 3	Mar 4	Mar 14
Mar 7	Mar 17	Mar 18	Mar 28

*New time dealings may take place from 9.00 am two business days earlier.

Bonds and equities draw no encouragement from big PSBR repayment in January

NEITHER SATISFACTION with the latest UK PSBR figures nor City hopes of progress towards a settlement of the Ford Motor strike could stir enthusiasm in the London securities markets yesterday. The big investment houses remained cautious ahead of tomorrow's trading session, which brings the announcement of the latest UK money supply and bank lending statistics, as well as preliminary trading figures from Midland Bank and British Petroleum.

Turnover in equities remained very thin and, with Wall Street making a slow return from the President's Day break, many UK blue chips were hardly tested. Speculative features were less prominent, and Texaco dismissed reports of an oil find in the Amazon with the terse statement that "it has not yet started drilling" in the area.

At the end of the session, Seaq equity turnover of 293.6m shares remained barely one half of the levels associated with bull market days.

The FT-SE 100 Index tried to move up after the PSBR announcement but soon lost heart, to close 4.6 down at 1734.6.

The disclosure of a £6.3bn PSBR surplus in January appeared to indicate that Mr Nigel Lawson, the UK Chancellor of the Exchequer, is "on target" for his Budget, to be revealed on March 15, while the decline in the latest UK production figures helped ease worries of overheating in the economy.

However, assumptions of a generous Budget have been questioned by several City analysts. "Expectations for fiscal expansion in the Budget have been rightly downgraded", as Mr Peter Thompson of BZW warns in his latest Equity Strategy note. He points to a 10 per cent Base Rate, "possibly in Budget week", as a warning both on wage settlements and consumer spending.

At Kleinwort Grieveson, on the other hand, Mr Mike Osborn holds to the view that the Chancellor "will deliver £4bn of tax cuts and a zero PSBR", and believes that higher interest rates would only be likely if sterling came under pressure.

Concern inside the City over the shakeout among the securities houses was not soothed by reports that the Bank of England is now casting a cold eye on the diminished share in the Gilt-edged market held by some of the new marketmakers who rushed in at Big Bang, seventeen months ago. There were also rumours that another major house was culling the equity dealing desks.

Government bonds were marked up in early trading, but an additional rise on the back of the PSBR figures failed to hold. At the close, gains of about ¼ in the longs were similar to those showing in the first half hour of the day. Once again, with institutional interest lacking, most of the activity lay in the bond futures pits on the London International Financial Futures market. London was also discouraged towards the close by initial weakness in US bonds.

Some bond traders suggested that the strong PSBR figure could be a warning of another jump in the UK bank lending totals. The continued absence of institutional interest in Gilts underlined the uncertainty of fund managers over current yield levels, commented Mr John Shepperd of Warburg Securities.

Ultramar came to the forefront of the oil sector, rising 6 to 264p as a block of 5.7m shares changed hands. The deal immediately raised the question of whether a buyer has been found for Sir Ron Brierley's stake in Ultramar. Industry analysts discounted recent suggestions that British Gas might bid, pointing to the monopoly problems of any takeover move in Canada's downstream oil industry. "It's more likely to be an Arab source, particularly in view of the recent developments in the UK", was the view of one seasoned oil industry analyst. Turnover in Ultramar finally totalled 9.7m shares.

British Petroleum traded sluggishly in modest turnover as the market awaited the annual trading figures, the fully-paid easing 2 to 258p and the partly-paid 1 to 77p.

British Gas, at 130p, showed little change after confirming that it is extending to all shareholders its bid for Petrocorp of New Zealand.

Marketmakers were sceptical of a vague report that Texaco had made an oil find at the mouth of the Amazon River. However, this was enough to spark speculation that Brazil may be in a position to repay some of its loans and had the effect of boosting turnover in **Lloyds Bank**, with its large exposure to Latin American debt, to 2.7m shares. Lloyds shares touched 263p in early trading before easing back to close just 2 higher on balance at 265p. The other major clearing banks made modest progress initially, but later slipped back to close virtually unchanged.

Standard Chartered touched 522p prior to closing only a penny dearer on balance at 516p on confirmation of the sale of its Californian subsidiary Union Bank to CFB, a subsidiary bank of Bank of Tokyo, for US$750m.

Copymore, a distributor of office equipment, staged a successful debut in the Unlisted Securities Market; the shares, placed at 130p, opened at 140p and touched 148p prior to closing at 143p.

Bass were the recipient of another investment house "buy" recommendation but the shares found upward progress difficult because of the general paucity of business. The close was only modestly higher at 790p. Barclays de Zoete Wedd (BZW) say "Bass must be regarded as the prime domestic stock of the Brewery sector. The current rating significantly undervalues the very real commercial and financial strengths of the company".

Leading Buildings fluctuated narrowly with one leading marketmaker discounting the level of business as "pitiful". **George Wimpey** gave further ground to close 9 down at 236p as the market swung to the view that fellow construction group C.H. Beazer, which has built a 1.4 per cent stake in the company, is unlikely to launch a full takeover bid. **Magnet**, another of the sector's recent bid favourites, softened 6 to 241p, but **Meyer International**, boosted by a bullish note from County NatWest, the securities house, gained 5 to 365p.

Blagden Industries attracted support and rose 6 to 170p ahead of preliminary figures due early next month, while **Leigh Interests**, a firm market on Monday reflecting the efforts of a single buyer, added 7 more to 201p, a two-day rise of 16.

The rise in the January retail sales figure continued to underpin the Stores sector but once again, failed to generate any real buying enthusiasm. **Woolworth** recorded one of the few outstanding features, rising 10 to 273p in a volume of some 2m shares as several investment houses made a positive response to the company's acquisition of Share Drug. **Marks and Spencer**, the only other leading issue to attract a relatively brisk trade (around 2.7m shares changed hands) closed a few pence to the good at 173p.

Next edged up to 267p before easing back to close unaltered on the day at 255p. In an update on the company, Citicorp Scrimgeour Vickers (CSV) believe that recent underperfomance of Next is due in part to distorted press criticism of Directory, the company's new mail order venture, which has left the shares trading at only a small premium to the sector. They point out, however, that this seems unreasonable for a stock which should deliver earnings growth twice that of the sector.

BSR International made a spirited rally with dealers reporting decent numbers of stock changing hands. Two broking houses have taken a bullish view of prospects, citing an encouraging outlook for the group, which is scheduled to announce annual results early next month. The shares gained 5 to 85p, after a day's high of 87p. Other smaller-priced issues to progress included **Prestwick**, 4 higher at 43p, and **Phicom**, 3 dearer at 47p. Acquisition news raised **First Security** 5 to 255p while the rumoured bid target of the group, **Holmes Protection**, hardened further to 115p. **United Scientific** went higher to 200p after the Barclays de Zoete Wedd arrangement of a £100m multi option facility but **Borland International** dipped 5 more to 97p, still reflecting the uninspiring quarterly figures. **Rodime** improved following an improved trading performance to close 5 up at 210p.

Plessey drifted easier, ending at 150p, awaiting tomorrow's third-quarter results. Warburg Securities is predicting a nine-month profit of £103m but market estimates range from either £3m above or below the Warburg figure.

GKN, up 5 at 309p, continued to edge higher as the market anticipated a settlement of the Ford Motor industrial dispute. **Vickers**, scheduled to reveal preliminary figures next Monday, drifted back a few pence to 159p; the company announced yesterday that it had been awarded an £18m contract by the Ministry of Defence to develop and build training tanks. News of the first production contract for the supply of engines for the US Navy trainer aircraft enlivened fresh interest in **Rolls-Royce** (some 3.4m shares traded) which settled unaltered on the day at 125p. Demand revived for **Camford**, up 12 at 168p.

Confectionery shares remained in vogue, **Cadbury Schweppes** adding 3 more to 251p and **Rowntree** 4 to 420p. **United Biscuits** hardened a couple of pence to 261p.

Retailers displayed a weak feature in **Dee Corporation** which dipped 7 to 178p on thoughts that **Barker and Dobson's** hotly-contested bid for the company may be doomed to failure; the offer closes on Friday. **Barker and Dobson** picked up 6 to 151p, while **William Low** gained 18 to 579p, amid suggestions that B & D may turn its attentions towards the company if the bid for Dee is unsuccessful.

Fruit and vegetable producer **Hunter Saphir** spurted 7 to 184p following a company visit.

Business failed to expand in the major internationals and movements rarely exceeded a few pence either way at the close of the trading session. Elsewhere, **British Airways**, awaiting today's announcement of the third quarter figures, were one of the more briskly traded stocks (4.6m) but settled 5½ cheaper on the day at 155½p. **Christies International** ran back 6 to 483p after the previous day's burst of speculative activity. **DSC** rose 8 to 96p on news that MIM had increased its holding to 23.99 per cent. It was also announced yesterday that the Merchant Navy Officers Pension Fund Trustee has acquired a 17.2 per cent stake in DSC. **AAH**, reflecting worries about competition from Unichem, the wholesale chemist, gave up 7 to 285p. Fresh support ahead of Friday's interim figures left **Alamsac** 26 dearer at 350p while **Record Holdings** firmed 5 to 63p following completion of the acquisition of four businesses from Christy Hunt for £1.23m cash.

Armstrong Equipment, the automotive components manufacturer, became a target for investors ahead of Friday's interim trading statement. BZW is looking for profits of around £4.3m compared with £3.6m for the same period last year, but the rise of 7 to 137p in the shares yesterday owed much to a squeeze on marketmakers' book positions. **Alexanders** were bought and rose to 27p prior to announcement of the preliminary statement. The disclosure of lower annual profits disappointed, however, and the shares retreated to close 3 down on the day at 25p.

Stories of takeover possibilities continued to swirl around **Reed International**, up 5 more at 411p, while **Boase Massimi Pollitt** spurted 11 to 279p following a limited trade which found the market short of stock. The latter company is due to report first-half results on March 22. A report that analysts were to visit the company pushed **Robert Horne** non-voting "A" 7 higher to 347p while **Fitch & Co.** rose 10 to 330p on the joint appointment to smarten up the new Lloyd's of London building.

Recent optimistic market forecasts underpinned the Property leaders, **Land Securities** adding 3 more to 490p, a two-day rise of 14. **MEPC** firmed 3 afresh to 469p, as did **Slough Estates**, to 263p. **Peachey** were a penny dearer at 386p, while **Estates Property Investment Company** (EPIC), currently the subject of an unwelcome bid from Peachey, firmed 4 to 249p pending further developments. **Rosehaugh** and **Stanhope** both made progress, the former rising 5 to 620p and the latter 2½ to 200p; Rosehaugh/Stanhope are favourites to win the right to partner British Rail in the redevelopment of the 100 acre Kings Cross site in London. An announcement is expected tomorrow. **Brixton Estate** revived with a gain of 8 at 251p following details of a City property sale, while buyers returned for **Greycoat** which spurted 11 to 324p. **Laing Properties**, the annual results due next month, found support at 390p, up 13, while **Wates City of London Properties**, preliminary figures due next Wednesday, picked up 6 at 176p. **Trencherwood** responded to the better-than-expected trading statement with a rise of 10 at 325p.

M & G retained most of the previous session's gain to close at 295p following confirmation that **Britannia Arrow** had acquired a disclosable stake. Citystep, the ultimate holding company of Britannia Arrow, revealed a shareholding of 5.01 per cent. After the recent tentative recovery, the latter eased slightly to 95p.

Traded option business rose sharply, the total number of contracts expanding to 32,968 made up of 23,784 calls and 9,184 puts. **Beecham** calls were active at 2,674, while **Plessey** registered 2,987 calls, 1,001 in the May 180's. **British Gas** calls totalled 752 with puts at 2,560. The **FTSE** contract attracted 1,151 calls and 2,246 puts.

Traditional Options

- First dealings Feb 15
- Last dealings Feb 26
- Last declarations May 19
- For Settlement May 31

For rate indications see end of London Share Service

Interest expanded in the Traditional option market yesterday. Stocks favoured for the call included **Berkeley and Hay Hill Investments, Next, Delta Group, Fairline Boats, Barr and Wallace Arnold "A", GRA, Neator, North Kalgurli, Energy Capital, Bridgend Group, Inoco, Aurora, Rea Bros., Singer and Friedlander, Eagle Trust, Bellwinch, Charterhall, Stormgard, British and Commonwealth, Legal and General and Eurotunnel.** No put or double options were reported.

FINANCIAL TIMES STOCK INDICES

	Feb. 16	Feb. 15	Feb. 12	Feb. 11	Feb. 10	Year ago	1987/88 High	1987/88 Low	Since Compilation High	Since Compilation Low
Government Secs	88.47	88.51	88.45	88.51	88.63	86.12	93.32 (8/5/87)	83.73 (19/10/87)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	95.35	95.19	95.25	94.97	94.92	93.06	99.12 (15/6/87)	90.23 (23/10/87)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary ♦	1386.9	1389.1	1385.0	1381.0	1368.4	1552.3	1926.2 (16/7/87)	1232.0 (9/11/87)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	261.7	261.9	255.9	252.7	259.0	305.7	497.5 (4/8/87)	241.7 (4/2/88)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	4.46	4.48	4.5	4.52	4.55	3.66				
Earnings Yld. % (full)	11.32	11.30	11.35	11.39	11.48	8.62				
P/E Ratio (net) (*)	10.79	10.81	10.76	10.73	10.64	14.21				
SEAQ Bargains (5pm)	20,740	21,329	20,092	21,993	20,733	35,635				
Equity Turnover (£m)	-	765.87	956.41	868.99	928.93	1520.06				
Equity Bargains	-	24,426	22,965	24,441	24,197	76,701				
Shares Traded (ml)	-	289.3	321.5	342.7	392.0	682.4				

S.E. ACTIVITY

Indices	Feb.15	Feb.12
Gilt Edged Bargains	115.8	125.2
Equity Bargains	153.1	148.8
Equity Value	1548.0	1933.1
5-Day average		
Gilt Edged Bargains	120.0	126.4
Equity Bargains	158.3	167.9
Equity Value	1751.4	1822.1

♦ Opening	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1390.5	1392.4	1390.2	1392.0	1392.1	1392.0	1390.5	1388.5

Day's High 1392.7 Day's low 1386.9

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, S E Activity 1974, * Nil=10.70.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 0898 123001

NEW HIGHS AND LOWS FOR 1987/88

NEW HIGHS (5).

CANADIANS (1) Danbus Res., BANKS (1) Bank Leumi, BUILDINGS (1) Douglas (Robt. M.), PROPERTY (1) Citygrove 7¼pc. Prf., PLANTATIONS (1) Assam Doocars.

NEW LOWS (13).

CANADIANS (1) Armeno, ELECTRICALS (3) Sigmex Intl., Systems Rlbty., Thermal Scientific, FOODS (1) Dalepak Foods, INDUSTRIALS (4) DPCE, Pavion 11pc. Cnv. Ln. 94/02, Reliance Sec. Grp., SAC Intl., OILS (2) Bridge Oil, Gaelic Resources, THIRD MARKET (2) Publishing Hldgs., Seacon.

FT-ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

	EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Tue Feb 16 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at 27%)	Est. P/E Ratio (Net)	xd adj. 1988 to date	Mon Feb 15 Index No.	Fri Feb 12 Index No.	Thu Feb 11 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (209)	724.59	-0.3	10.02	4.02	12.51	1.43	726.82	723.69	719.62	825.48
2	Building Materials (30)	954.23	-0.4	10.28	3.95	12.10	0.64	958.48	958.67	954.41	1009.25
3	Contracting, Construction (34)	1452.41	-0.5	9.36	3.43	14.20	0.87	1459.62	1458.99	1452.05	1400.06
4	Electricals (12)	2022.35	-0.1	9.31	4.81	13.85	0.34	2024.33	2031.96	2010.17	1984.04
5	Electronics (32)	1461.23	-0.8	11.20	3.63	11.64	7.84	1473.70	1470.07	1455.52	1837.78
6	Mechanical Engineering (57)	377.40	—	10.05	4.44	12.55	0.56	377.60	376.00	374.68	473.66
8	Metals and Metal Forming (7)	427.52	-0.1	10.07	3.92	11.98	0.00	427.78	427.16	428.62	430.10
9	Motors (13)	275.72	—	11.00	4.22	10.58	0.00	275.66	270.37	270.95	322.86
10	Other Industrial Materials (24)	1223.49	+0.2	8.52	4.25	13.94	2.78	1221.55	1207.31	1198.22	1401.60
21	CONSUMER GROUP (184)	1012.05	-0.1	8.79	3.63	14.50	1.52	1012.84	1008.84	1008.67	1135.18
22	Brewers and Distillers (21)	980.34	+0.3	11.30	4.02	11.17	0.02	977.13	970.95	968.84	1051.89
25	Food Manufacturing (23)	826.42	-0.1	9.27	3.90	13.93	1.22	827.31	825.18	822.19	860.46
26	Food Retailing (16)	1971.59	-1.0	8.16	3.24	16.49	7.09	1992.32	1985.23	1979.93	2105.83
27	Health and Household Products (10)	1767.10	-0.4	6.65	2.54	17.93	0.03	1774.74	1773.62	1784.63	2184.31
29	Leisure (31)	1184.51	-0.2	7.86	3.98	15.83	5.45	1187.36	1184.82	1176.11	1158.82
31	Packaging & Paper (16)	496.99	+0.2	8.60	3.70	15.30	0.46	496.06	493.63	493.02	598.49
32	Publishing & Printing (16)	3421.03	+0.3	6.65	4.32	18.89	4.11	3411.98	3379.16	3344.85	3648.37
34	Stores (34)	799.41	+0.5	9.54	3.84	14.05	1.39	795.28	791.32	795.52	955.34
35	Textiles (17)	553.13	-0.1	11.85	4.23	9.74	0.00	553.89	551.84	554.91	691.84
40	OTHER GROUPS (92)	865.65	-0.3	10.66	4.29	11.70	0.63	868.61	869.00	864.47	959.24
41	Agencies (19)	1072.32	—	7.32	2.40	17.49	1.50	1071.97	1071.26	1066.46	1308.82
42	Chemicals (20)	1030.77	-0.2	9.86	4.55	12.44	3.22	1032.95	1034.21	1025.78	1261.97
43	Conglomerates (13)	1153.82	-0.5	10.38	4.59	11.22	0.00	1159.32	1155.88	1156.69	1267.85
45	Shipping and Transport (11)	1801.21	-1.0	9.28	4.56	14.12	0.00	1818.52	1811.56	1803.35	1871.05
47	Telephone Networks (2)	940.87	-0.5	11.44	4.50	11.63	0.00	945.56	952.37	949.23	951.83
48	Miscellaneous (27)	1165.97	+0.1	12.93	4.06	9.22	0.16	1164.90	1158.95	1144.60	1315.42
49	INDUSTRIAL GROUP (485)	908.32	-0.2	9.63	3.91	13.10	1.28	910.22	907.66	904.96	1019.28
51	Oil & Gas (15)	1754.87	-0.3	9.47	5.66	13.02	0.00	1760.71	1762.76	1764.12	1608.70
59	500 SHARE INDEX (500)	980.09	-0.2	9.60	4.18	13.08	1.17	982.33	980.16	977.80	1068.52
61	FINANCIAL GROUP (122)	645.54	-0.2	—	4.91	—	0.77	646.59	641.84	639.97	689.65
62	Banks (8)	644.71	-0.4	20.54	6.09	6.43	1.43	647.38	643.41	641.14	761.37
65	Insurance (Life) (8)	959.16	-0.3	—	4.80	—	0.00	962.11	960.31	961.57	988.31
66	Insurance (Composite) (7)	496.78	-0.6	—	5.54	—	0.00	499.72	497.75	494.37	547.89
67	Insurance (Brokers) (7)	889.57	-2.7	13.61	7.25	9.37	0.00	914.24	894.96	886.18	1283.47
68	Merchant Banks (11)	337.47	—	—	4.23	—	0.00	337.53	337.14	337.34	372.43
69	Property (51)	1036.04	+0.8	5.22	2.99	24.46	0.83	1028.18	1012.98	1011.19	873.48
70	Other Financial (30)	379.08	+0.1	10.07	4.47	12.53	1.43	378.67	376.67	375.53	424.19
71	Investment Trusts (85)	850.52	+0.5	—	3.03	—	1.10	845.91	841.06	838.75	953.07
81	Mining Finance (2)	405.82	-1.0	11.20	4.21	10.06	0.00	410.18	407.83	404.81	372.55
91	Overseas Traders (8)	1017.67	-0.2	10.23	5.31	11.57	0.00	1019.68	1017.94	1008.99	856.85
99	ALL-SHARE INDEX (717)	890.68	-0.2	—	4.26	—	1.04	892.47	889.66	887.33	964.86

	Index No.	Day's Change	Day's High	Day's Low	Feb 15	Feb 12	Feb 11	Feb 10	Feb 9	Year ago
FT-SE 100 SHARE INDEX ♦	1734.6	-4.6	1743.5	1734.3	1739.2	1734.0	1729.8	1718.5	1707.2	1942.0

FIXED INTEREST

	PRICE INDICES	Tue Feb 16	Day's change %	Mon Feb 15	xd adj. today	xd adj. 1988 to date
	British Government					
1	5 years	122.15	+0.13	122.00	—	1.67
2	5-15 years	138.26	+0.25	137.92	—	1.63
3	Over 15 years	147.64	+0.29	147.21	—	0.99
4	Irredeemables	162.45	+0.11	162.42	—	0.89
5	All stocks	135.46	+0.22	135.16	—	1.55
	Index-Linked					
6	5 years	124.08	-0.01	124.09	—	0.51
7	Over 5 years	116.55	-0.03	116.19	0.15	0.67
8	All stocks	116.50	-0.03	116.68	0.14	0.66
9	Debentures & Loans	117.63	-0.01	117.64	—	0.73
10	Preference	86.74	+0.01	86.72	—	0.42

	AVERAGE GROSS REDEMPTION YIELDS		Tue Feb 16	Mon Feb 15	Year ago (approx.)
	British Government				
1	Low Coupons	5 years	9.06	9.10	9.01
2		15 years	9.42	9.45	9.71
3		25 years	9.30	9.33	9.71
4	Medium Coupons	5 years	9.63	9.68	10.13
5		15 years	9.62	9.66	9.95
6		25 years	9.48	9.50	9.82
7	High Coupons	5 years	9.73	9.78	10.15
8		15 years	9.78	9.81	10.11
9		25 years	9.51	9.54	9.85
10	Irredeemables		9.39	9.44	9.65
	Index-Linked				
11	Inflation rate 5%	5yrs.	2.45	2.44	3.12
12	Inflation rate 5%	Over 5 yrs.	3.88	3.87	3.46
13	Inflation rate 10%	5 yrs.	1.42	1.41	1.39
14	Inflation rate 10%	Over 5 yrs.	3.70	3.70	3.29
15	Debs & Loans	5 years	10.93	10.93	10.75
16		15 years	10.90	10.90	10.80
17		25 years	10.90	10.90	10.80
18	Preference		10.51	10.51	11.18

♦Opening index 1741.5; 10 am 1742.4; 11 am 1740.3; Noon 1742.6; 1 pm 1743.3; 2 pm 1743.2; 3 pm 1740.5; 3.30 pm 1738.0; 4 pm 1736.8

† Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A new list of constituents is available from the Publishers, The Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 32p.
CONSTITUENT CHANGES: Birmid Qualcast(6) has been deleted and replaced by ML Holdings(6).

LONDON TRADED OPTIONS

Option		CALLS Apr.	CALLS Jul.	CALLS Oct.	PUTS Apr.	PUTS Jul.	PUTS Oct.
Allied Lyons (*340)	300	50	55	—	4	12	—
	330	27	34	45	12	22	25
	360	11	22	30	27	37	42
[illegible]							

Option		CALLS Feb	CALLS May	CALLS Aug	PUTS Feb	PUTS May	PUTS Aug
LASMO (*304)	280	25	45	55	½	18	33
	300	7	33	45	2	30	38
[illegible]							

February 16 Total Contracts 32,968 Calls 23,784 Puts 9,184
FT-SE Index Calls 1,151 Puts 2,246
*Underlying security price.

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Stock	Volume 000's	Stock	Volume 000's
ASDA-MFI	2,100	Enterprise Oil	439	Prudential	328
Allied-Lyons	1,000	Fisons	926	Racal	1,000
Amstrad	1,900	General Accident	338	Rank Org.	609
Argyll Group	789	General Elect.	2,300	RMC	162
Assoc. Brit. Foods	175	Glaxo	774	RHM	165
BAA	1,800	Globe Investment	254	Reckitt & Colman	359
BAT	1,100	Granada	367	Redland	506
BET	1,300	Grand Met	1,800	Reed Intl.	803
SICC	41	GUS A	42	Reuters B	876
BOC	1,300	Guardian R.E.	78	RTZ	1,400
BPB Inds	237	GKN	1,800	Rolls-Royce	3,400
BTR	974	Guinness	410	Rothmans B	135
Barclays	619	Hammerson	70	Rowntree	132
Bass	251	Hanson	3,400	Ryl Bank Scotland	194
Beecham	925	Hawker Siddeley	187	Royal Insurance	225
Blue Arrow	346	Hillsdown Holdings	1,200	STC	3,100
Blue Circle	215	IMI	1,000	Saatchi & Saatchi	742
Boots	1,900	ICI	500	Sainsbury	524
Brit. Airways	4,500	Jaguar	780	Scott & Newcastle	754
Brit. Aerospace	1,000	Ladbroke	3,000	Sears	1,100
Brit. & Comm.	384	Land Securities	779	[illegible]	[illegible]
British Gas	4,300	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]					

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	[illegible]	[illegible]	[illegible]
Corporations, Dominion and Foreign Bonds	[illegible]	[illegible]	[illegible]
Industrials	[illegible]	[illegible]	[illegible]
Financial and Properties	[illegible]	[illegible]	[illegible]
Oils	[illegible]	[illegible]	[illegible]
Plantations	[illegible]	[illegible]	[illegible]
Mines	[illegible]	[illegible]	[illegible]
Others	[illegible]	[illegible]	[illegible]
Totals	769	565	1,623

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

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WORLD STOCK MARKETS

AUSTRIA

February 16	Sch %	+ or −
Creditanstalt	1,870	—
Goesser	2,660	+10
Interunfall	9,680	+10
Jungbunzlauer	5,260	+250
Laenderbank	345	—
Perlmooser	650	+5
Steyr-Daimler	103	+2
Veitscher Mag	590	+28

BELGIUM/LUXEMBOURG

February 16	Frs.	+ or −
B B L	2,755	+50
Banque Gen. Du L.	13,500	—
Bank Int. A	13,000	—
Bekaert B	9,500	—
Ciment CBR	5,520	+170
Cockerill	173	−3
Cobepa	6,010	+210
Delhaize	3,900	+240
EBES	4,600	+10
Fabrique Nat	796	−4
GB Inno BM	1,086	+36
GBL (Brux L)	2,950	+25
Generale Bank	5,500	+190
Gevaert	7,120	+160
Hoboken	7,580	+150
Intercom	3,700	+100
Kredietbank	3,650	+150
Pan Holdings	10,850	+50
Petrofina	10,975	—
Raffinerie Tirle	1,350	+16
Royale Belge	4,800	+110
Soc Gen Belge	4,060	+130
Sofina	11,550	+225
Solvay	10,325	+50
Stanwick Intl	150	—
Tractebel	6,500	+60
UCB	8,000	—

FRANCE

February 16	Frs.	+ or −
Emprunt 4.5% '73	1,655	+35
Accor	401	+4
Agence Havas	510	+6
Air Liquide	497	+15
Alsthom	1,900	−5
BIC	530	−10
BNP (Cert Inv.)	216	—
Bongrain	1,960	−75
Bouygues	815	−10
BSN Gervais	3,995	−53
Carrefour	2,300	−28
Club Mediterranee	442	−4
Cie Bancaire	407	−1
Cie Fin. de Suez	257	−1
Cofimeg	300	—
CGE	228.9	+13.4
Damart	1,650	+55
Darty	317	−9
Dumez S.A.	481	−9
Eaux (Cie Gen)	966	−26
Elf-Aquitaine	259	−2
Essilor	2,517	+42
Gen. Occidentale	657	—
Imetal	144	+2.9
LVMH	1,770	−51
Lafarge Coppee	1,163	+25
L'Oreal	2,735	−25
Legrand	2,288	+12
Maisons Phenix	44	+3
Matra S.A.	139 xa	−0
Michelin B	169	+3
Midi (Cie)	1,368	−73
Moulinex	56	−5
Nord Est	93	−1
Paribas	285	+2
Pernod Ricard	667	−11
Perrier	626	−4
Petroles Fra.	331	−3
Peugeot S.A.	905	−11

CANADA

OVER-THE-COUNTER

Nasdaq national market, closing prices

Indices

NEW YORK

CANADA

NEW YORK ACTIVE STOCKS

CHIEF LONDON PRICE CHANGES YESTERDAY

(Prices in pence unless otherwise indicated)

RISES

Armstrong Equipment	137	+7
BSR Intl	85	+5
Barker & Dobson	151	+6
House Mastim	279	+11
Brixton Estate	250	+8
Camford Eng	168	+12
Caskel	80	+5
DSC Hldgs	94	+8
Firth & Co	391	+10
Low (William)	570	+18
Trenderwood	325	+10
Woolworth Hldgs	273	+10

FALLS

Borland Intl	97	−5
Dee Corpn	178	−7
Wimpey (George)	241	−9

TOKYO – Most Active Stocks

Tuesday February 16 1988

	Stocks Traded	Closing Prices	Change on day
Sumitomo Heavy Ind	23.71m	551	-8
Toshiba	13.02m	756	-5
Kawasaki Steel	11.18m	354	-2
Nippon Steel	11.17m	399	-2
Fuji Electric	10.65m	620	+10
Honshu Paper	10.55m	615	-4
Sankyo	10.13m	130	+20
Uny Co	9.42m	2240	+190
Sankyo-Kokusaku Pump	8.95m	771	-14
Tokyo Gas	8.75m	974	+18

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
25⅝	14	AAR	s	.36	1.8	18	121	20¼	19¾	19⅞	−½
32½	21	AFG	6	.16	.6	11	492	25¼	23	25⅛	
27	10½	AGS	s			13	65	15⅝	14⅞	15⅝	
10½	5⅝	AMCA					2	5⅝	5⅝	5⅝	
9⅝	3¼	AM	Intl			27	871	4	3¾	3¾	−⅛
65½	26¾	AMR				11	2598	36¼	35¼	36⅛	+⅜
25	19	ANR	pf2.12		9.3		6	22⅞	22⅞	22⅞	+⅜
12¼	6⅛	ARX	s			8	582	7¾	7⅝	7¾	
73½	39½	ASA		3	6.4		445	47	46⅛	46⅝	+¼
22⅜	9½	AVX				12	115	14½	14¼	14½	+¼
67	40	AbtLab	2		2.1	16	2879	48⅞	47¾	48⅝	+⅜
28	15⅝	Abitibi	g				18	18⅞	18¾	18⅞	+⅛
16¾	8½	AcmeC	.40		3.5		31	11⅝	11⅜	11½	
10½	6¾	AcmeE	.32b		3.7	23	3	8⅞	8⅝	8⅝	−⅛
20	14⅛	AdaEx	3.05e		19.		171	16¼	15¾	16	+⅛
19½	6⅞	AdamMK			2.0	10	91	12¼	12¼	12¼	−⅛
24⅞	7½	AMD					2181	10½	10⅛	10½	+⅜
56¾	29¼	AMD	pf	3	9.1		144	33	32¾	33	
11⅛	4⅝	Adobe				10	38	6⅛	6	6	
20¼	18¼	Adob	pf1.84		11.		16	16⅞	16¾	16¾	−⅛
21¼	17½	Adob	pf2.40								
[illegible]										

Continued on Page 41

NYSE COMPOSITE CLOSING PRICES

Continued from Page 40

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		U U U								
27⅛	11¾	UDC	2.20	12.	6	209	18½	17¾	18⅛	−⅛
32	21⅝	UGI	2.04	7.5	12	77	27⅜	26⅞	26⅞	
13¾	4⅛	UNCInc.01e		.1	11	491	7½	7⅛	7⅜	+¼
37¾	15⅝	UNUM	.40	1.9	11	227	21¼	21	21⅛	−⅛
45¾	26¼	USFG	2.48	7.8	7	1415	35	32½	32⅝	+⅛
62	41¼	USFG pf4.10		8.3		52	49¾	49	49⅝	−⅝
55⅞	23½	USG	1.12b	3.9	7	972	29¾	28	28⅝	+⅛
		X Y Z								
65	50	Xerox	3	5.3	11	2241	57⅛	55¼	57	+1⅝
58¼	52½	Xerox pf5.45		10.		66	53⅞	53¾	53¾	
31½	19⅛	XTRA	.64	2.3	15	329	30	28¾	28¾	+⅝
28¼	19½	XTRA pf1.94		7.8		40	25¾	25⅜	25¼	+¾
39⅞	17¼	Yorkdn			16	75	27¾	27	27⅝	+⅛
7¼	2¼	Zapata				318	3⅛	3	3	
37	16½	Zayre	.40	2.1	7	4431	19⅜	18⅞	19⅛	
33⅜	10	ZenithE				1933	15⅞	15¾	15⅞	+⅜
13½	2½	ZenLab				279	2⅞	2¾	2¾	−⅛
25½	13½	ZenNtl	.80	4.4	0	3	18¼	18⅛	18⅛	
20⅜	11⅞	Zero	.36	2.3	16	23	15½	15¼	15½	+¼
36¼	16	Zurnin s .56		3.0	13	109	22½	22⅛	22⅜	
10⅝	7⅝	Zweig 1.08e		11.		663	9⅝	9¼	9½	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in-full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

OVER-THE-COUNTER

Nasdaq national market, closing prices

Continued on Page 39

هكذا من الأصل

AMERICA

Takeover activity adds life to listless markets

Wall Street

EQUITY DEALERS returned from their long holiday weekend to face another dull day of trading despite an explosion of takeover activity, *writes Janet Bush in New York.*

The largest movements continued to happen in the US Treasury bond market which continued to fall, reflecting a waning of hopes that the US Federal Reserve was easing monetary policy and could even have been planning a cut in its discount rate.

The Dow Jones Industrial Average hovered around Friday's closing levels for most of the session before jumping suddenly in the last half hour of business to close 22.71 points higher at 2,005.97. Volume was low at just over 135m shares.

Meanwhile, bond prices fell by more than a full point in early trading before recovering to close up to ¾ lower. The Treasury's benchmark 30-year long bond closed ⅝ down to yield 8.46 per cent.

The equity market gained more than 70 points overall last week, its best performance for some time. However, despite Friday's relatively encouraging December trade figures and other data showing retail sales holding up better than expected, the market still seemed to have little conviction and has derived little benefit from the shake-out in the bond market.

Nevertheless, many in the market will draw comfort from the Dow closing above 2,000 for the first time since January 7.

One of the biggest movers on the equity market was Firestone Tyre & Rubber which jumped $9¼ to $45 after the company announced it was considering its tyre business to a joint venture with Bridgestone of Japan. This put an end to rumours that Firestone was in talks with Pirelli of Italy about a sale of its tyre business.

Federated Department Stores jumped $3⅛ to $63⅞ by midsession yesterday. The company said it was reviewing a number of different options including the sweetened bid by Campeau Corp of Canada which is expected to be more than $55 a share or $5.75bn. Campeau had previously bid $61 a share.

The publishing sector was set alight by a press conference held yesterday by British publisher Mr Robert Maxwell. He said he was considering a hostile acquisition in the US in the near future.

Houghton Mifflin Co jumped $3⅞ to $31⅞ on speculation that it may be a target although the company said it had not had any contact with Mr Maxwell. Macmillan added $3⅛ to $52½ while Harcourt Brace Jovanovich, which successfully fended off a bid by Mr Maxwell last year, rose $⅛ to $6⅛.

The star performer was Addison-Wesley Publishing Co which soared $46 ½ to $101 on news of its agreed takeover by Pearson worth $105 a share.

The computer sector was also in focus yesterday after International Business Machines' launch on Monday of new software for its mainframe computers which will make them run faster. IBM's share price added $1⅛ to $113¾. Honeywell Bull, a joint venture with Honeywell Inc, introduced three new models to its family of medium-scale computers and a number of new software tools. Honeywell's share price rose $⅝ to $63⅝. Tandem slipped $⅛ to $18⅛. The company announced it had signed an agreement in which Ungermann-Bass would become its wholly owned subsidiary in a deal worth about $250m. Ungermann-Bass rose $3⅛ to $12⅛.

Coca-Cola Enterprises was unchanged at $14⅛ after its announcement of fourth quarter net earnings of $14.3m compared with a loss of $1.1m a year earlier.

Bear Stearns announced net earnings of 40 cents a share in its third quarter ended January 29 compared with earnings of 70 cents a share a year earlier. Bear Stearns was unchanged at $12⅛.

Canada

RISING energy issues, industrials and mines pushed the market ahead in moderate trading in Toronto.

The composite index, which dropped about five points in earlier trading, rose 27.08 to 3136.79 on turnover of 24.8m shares.

SOUTH AFRICA

A DIP in the bullion price to just over $444 an ounce sent nervous investors back to the sidelines and gold stocks in Johannesburg turned mixed with an easier bias.

The market's gold index eased 1 point to 1,332 in very thin trade.

Among major gold stocks, Vaal Reefs lost R4 to R260, Freegold dropped 25 cents to R30.25 and Driefontein fell 45 cents to R34.50.

Randfontein edged up R1 to R216, Western Deep put on R2 to R105 while Kloof was unchanged at R31.50.

Diamond share De Beers gave up 10 cents to R23.90 and other minings and mining financials were mixed.

Industrials were also mixed. Oil-from-coal stock Sasol rose 15 cents to R6.90 in busy trading and industrial holding company Anglovaal Industries shed 50 cents to R25.75.

EUROPE

Firm dollar lends support to blue chips

THE FIRMER dollar encouraged active buying in blue chip industrials, lifting share prices on major bourses in Europe yesterday. Dutch and French stocks continued to be swayed by takeovers and bids but lost ground near the close as nervous selling set in.

FRANKFURT extended its rally for the fifth consecutive session as blue chips advanced on the dollar. The bourse session closed an hour early because of local carnival celebrations but turnover was heavy.

The FAZ index edged up 2.57 to 443.36, its second consecutive 1988 high.

In cars, Daimler raced ahead with a DM21 advance to DM670 and VW rose DM5 to DM239.

Engineer Linde surged DM12 to DM564 and Karstadt soared DM14 to DM414.

PARIS dipped on afternoon profit-taking after a day full of bid and merger announcements.

The CAC index opened up 2.5 at 290.9 in moderate trading. But shares fell back as traditional end-of-trading-account selling materialised. Before yesterday's decline the market had risen by almost 15 per cent since the account began on January 22. It closes on Friday.

Bid activity focused on Télémecanique, with Framatome launching a FFr4,150 a share counterbid for the electronics group, topping Schneider's FFr3,900 offer. Télémecanique shares, due to resume trading yesterday, were suspended indefinitely.

Shares in construction group Société Générale d'Entreprises, which had risen sharply on Monday, were also suspended prior to news that its parent company Saint-Gobain was in talks with Générale des Eaux to link their construction interests. Saint-Gobain rose FFr3 to FFr417 and Générale des Eaux fell FFr26 to FFr966.

BRUSSELS firmed across the board in moderate trading, helped by the stronger dollar and easier interest rates. Blue chips led the way, taking the stock index up 58.14 to 4,468.18.

Recent heavy trading in Société Générale de Belgique has added liquidity to the market, with funds from the sale of La Générale stock being moved into blue chips. Générale turnover was the lowest since the bid battle for Belgium's biggest company began and its shares closed up BFr130 at BFr4,860.

AMSTERDAM closed off the day's highs after late profit-taking was triggered by an unsteady opening on Wall Street and a late dip in the dollar. The ANP-CBS index rose 2.8 to 229.2.

Transport company Nedlloyd, facing a possible hostile takeover bid, closed Fl 1 lower at Fl 191.50.

Publisher VNU and takeover target Audet ended off their day's highs. Audet was unchanged at Fl 290 after reaching Fl 308, and VNU finished up 70 cents at Fl 69.70 after a high of Fl 72.50. Both issues resumed trading after a two-day suspension.

MILAN closed mixed in volatile trading on the first day of the new monthly account period. Profit-taking followed Monday's sharp gains and volume was down.

Heavy buying of Iniziativa, the services group at the centre of the contested Ferruzzi/Montedison restructuring, took the stock to a high of L9,300, up L99.

Montedison lost L15 to L1,085, Mediobanca fell L1350 to L168,600 and Generali ended down L300 at L81,550.

ZURICH advanced as the steady dollar encouraged foreign buying in blue chips. The Credit Suisse index rose 4.5 to 447.0 in moderate volume.

Insurers and holdings were broadly higher but banks continued to trail as investors awaited 1987 results.

MADRID received a boost from the resumption of trading in Banco de Vizcaya and Banco de Bilbao, suspended last month when they announced plans to merge their operations. The general index rose 1.56 to 249.03 in moderate activity.

Telefonica, which signed a cooperation accord giving it a 10 per cent stake in Fiat's wholly-owned subsidiary Teletra Spa, slipped 0.12 percentage points to 171.12 of par.

STOCKHOLM continued to rise in moderate trading with considerable interest in forestry shares and industrial blue chips. The market was cheered by low-cost labour agreements, improved profits and news that Sweden's industrial production in December rose 3.6 per cent.

HELSINKI turned optimistic as more good corporate results and continuing interest in forestry shares lifted the market. The Unitas all-share index rose 2.8 to 576.7 in improved turnover.

London

UNENTHUSIASTIC UK markets digested news of a £6.3bn ($11bn) PSBR surplus and continued to drift.

The FT-SE 100 dipped 4.6 to 1,734.6 in thin turnover.

Internationals were flat. BP eased in sluggish trade as the market awaited annual trading figures.

ASIA

Consumer and biotech issues boost Tokyo

Tokyo

STRONG interest in demand-related and biotechnology stocks helped push share prices higher for the fourth consecutive day, *writes Shigeo Nishiwaki of Jiji Press.*

The Nikkei average gained 138.19 to close at 24,345.66, after touching a day's high of 24,358.88. Volume totalled 696m against Monday's 661m and advances outnumbered declines by 534 to 375, with 149 issues unchanged.

Sumitomo Heavy Industries, which has traded strongly for the past week because of its superconductor interests, attracted the most buying, with 23.71m shares traded. It rose Y9 before coming under selling pressure later to close Y5 lower at Y551. Toshiba, the second busiest issue with 13.02m shares, shed Y5 to Y756.

Power utilities, electric railways and properties were also popular, with Tokyo Electric Power gaining Y120 to Y5,230, Seibu Railway up Y110 to Y3,700 and Mitsui Real Estate adding Y50 to Y1,890.

In biotechnology stocks, Sankyo was actively traded and ended Y20 higher at Y2,130. Yamanouchi Pharmaceutical gained Y110 to Y4,210 and Daiichi Seiyaku rose Y80 to Y3,430.

Consumer stocks were bolstered by reports that Tokyo department store sales rose by 9 per cent last month compared with the year before.

Supermarket chains performed strongly, with Jusco soaring Y170 to Y2,060, Uny Y290 to Y2,240 and Inageya Y220 to Y2,070. Buying interest in department stores was not so strong, however, and Mitsukoshi finished just Y10 higher at Y1,540.

Some giant-capitals and high-technology stocks were actively traded, but Kawasaki Steel and Nippon Steel both lost Y2 to Y354 and Y399.

Securities houses, non-life insurances and other financials, returned to favour. Nomura Securities rose Y170 to Y3,540 while Daiwa Securities and Yamaichi Securities ended Y130 and Y100 higher at Y2,280 and Y1,780 respectively.

Osaka Securities Exchange prices closed higher for the fourth straight trading day. The 250-issue OSE stock average gained 154.47 points to Y24,802.41 on an estimated volume of 117m shares against 3.7m shares the previous day.

Australia

FIRM gold and copper prices, a soaring price for aluminium and news of improved Australian trade data for January lifted Sydney. Late profit-taking pulled stocks off their best levels of the day, leaving the All Ordinaries index 5.0 higher at 1,214.9 after a mid-session peak of 1,220.

North Kalgurli gained 3 cents to 50 cents, Western Mining, which reported its results after the market closed, advanced 7 cents to A$4.33 and aluminium miner Comalco firmed 5 cents to A$2.40.

Elders IXL put on 2 cents to A$3.02. It reported an 83 per cent rise in profits for the fiscal first half ended December 31. Elders Resources, which is 48 per cent owned by Elders IXL, was unchanged at A$2.35.

Singapore

SELECTED interest in Malaysian stocks nudged share prices higher in quiet pre-holiday trading. The Straits Times industrial index rose 4.53 to 886.58. The market was open for half-a-day on the eve of Chinese New Year and will be closed today and tomorrow.

Indications that Malaysia's prime minister was on the way to resolving the political situation helped stocks recover after recent sharp falls. Sime Darby was the most active counter and gained 2 cents to S$2.09. Consolidated Plantations was also busy and up 2 cents to S$2.10.

Hong Kong

VOLUME remained thin in half-day trading leading up the three-day Lunar New Year holiday starting today, with the Hang Seng index gaining 26.29 points to 2,328.04.

Turnover reached HK$279m, against Monday's HK$409m. Among blue chips China Light rose 50 cents to HK$17.90, with Swire Pacific A shares adding 20 cents to HK$15.50.

Peter Ungphakorn in Bangkok examines a revival of foreign and local interest

Thai bulls make shy re-appearance

FOREIGN INVESTORS are showing confidence in Thailand as the market stages a comeback following the shocks of October 19 that halved the Securities Exchange of Thailand (SET) index of share prices by December 11.

Some analysts are proclaiming that "the bull is back", but the mood is nevertheless more muted than during the boom of the first three quarters of last year. The market is waiting to see whether the recovery in foreign investment – one of last year's driving forces – will be sustained, and whether tightening liquidity in the financial sector, which could slow investment, is temporary.

SET President Mr Maruey Phadcongsiddhi said yesterday that foreigners had made net purchases of Baht 50m ($1.9m) in December and Baht 100m in January. Foreign investment was growing but was not yet back to the levels of mid-1987.

The latest of a series of new investment funds, the Thai Fund Inc, is due to be listed on the New York Stock Exchange today, with capital of $60m. A $50m Thai-Euro Fund has been approved for listing in London, and a $50m Thai Growth Fund is planned for Tokyo.

Indosuez Asia Investment Services Ltd manages the new $40m Siam Fund registered in Singapore.

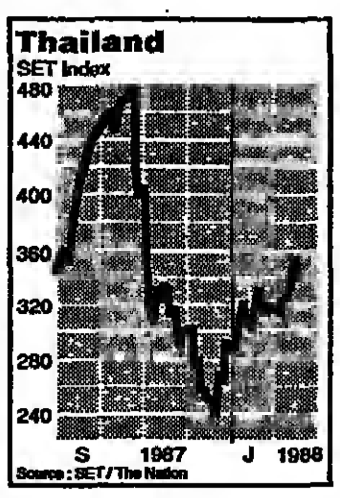
Even for a market as small as Thailand's – capitalisation is now about Baht 165bn, twice that of the Philippines but less than an eighth the size of Hong Kong – Black Monday revealed the extent of its international links. Investors on the SET have, for example, recently been watching anxiously each month to see how the US trade figures turn out. But Mr Maruey said last Friday's narrowed trade deficit this time had little impact on the market, indicating the improving confidence investors have in the SET.

Fundamental strengths remain. Last year was a boom year for the Thai economy, particularly manufacturing and exports, with growth estimated at around six per cent. Most of the sectors represented on the 130-security market performed better than that.

This year, provided severe world recession is avoided, economists expect growth to be only slightly slower and inflation to be manageable as long as oil prices do not rise sharply.

Despite last October's collapse, the SET index ended 1987 up 38 per cent at 284.94, although this was still way below the October 16 record of 472. By yesterday it was up 19 per cent on the year-end at 340.26.

Over 1987 as a whole, foreign investors would have earned on average 43.61 per cent in capital gains on dollars invested at the beginning of the year. At the end of December foreign investment in the market, at



$475m, was almost five times the level at the beginning of last year.

More than half this investment on the SET is said to have come from Hong Kong, about a quarter from London, and 15 per cent from Singapore. The Japanese, who are investing directly and massively in manufacturing in Thailand, are also beginning to show an interest in Thai capital markets.

During last year's bull market, officials expressed concern about rash speculation. Post-October experience seems to have quelled the more rash motives for trading.

A number of precautionary measures have been introduced, or are planned, however, such as legislation to set up a Securities Exchange Commission, currently being drafted.

The 32 brokers with seats on the SET have, with varying degrees of enthusiasm, set up the Ruam Pattana ("Joint Development") Fund designed to stabilize share prices. About Baht 430m has been spent on supporting the market, with the aim of spending a total of Baht 500m by next week and since the crash.

The limit on daily share price movements is now back at 10 per cent, indicating the recovery from last year's turmoil. Immediately after October 19, the limit was narrowed to 5 per cent.

Last year's Baht 123bn turnover was the best ever. Price earnings ratios, which climbed to about 14, now average about 11. And the SET hopes to list 25 new companies this year, representing registered capital of about Baht 5bn.

Among the candidates are four state or semi-state enterprises: Thai Airways International, Bangchak Petroleum, Krung Thai Bank, the second large commercial bank, and Thai Oil Refinery Co. Of these, Bangchak, also a refinery, appears the most likely candidate for partial privatisation.

FT – ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY FEBRUARY 15 1988					FRIDAY FEBRUARY 12 1988			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1987/88 High	1987/88 Low	Year ago (approx)
Australia (93)	94.31	+1.3	80.09	88.14	5.16	93.11	79.33	87.51	180.81	85.36	106.43
Austria (16)	84.76	+0.5	71.97	75.25	2.78	84.35	71.87	74.93	102.87	84.35	94.68
Belgium (48)	116.34	+1.6	98.79	102.85	4.64	114.46	97.52	101.33	134.89	94.63	107.18
Canada (127)	113.31	+1.2	96.21	103.83	3.14	111.94	95.38	102.33	141.78	98.15	119.09
Denmark (38)	115.61	+0.7	98.17	102.56	2.89	114.82	97.84	102.13	124.83	98.18	115.29
Finland (23)	113.25	+1.7	96.17	98.38	1.88	111.32	94.85	96.90	–	–	–
France (123)	81.83	+1.1	69.49	74.00	4.04	80.93	68.96	73.44	121.82	72.77	110.39
West Germany (94)	74.15	+1.7	62.96	65.80	2.81	72.92	62.14	64.91	104.93	67.78	90.77
Hong Kong (46)	87.56	+0.4	74.35	87.63	4.83	87.20	74.30	87.29	158.68	73.92	108.31
Ireland (14)	107.40	+0.6	91.19	97.16	4.67	106.78	90.98	96.82	160.22	93.50	115.10
Italy (94)	67.32	+4.1	57.16	63.19	3.04	64.67	55.10	60.90	112.11	62.99	98.68
Japan (457)	150.26	+1.6	127.59	123.52	0.56	147.88	126.01	122.60	161.28	100.00	112.31
Malaysia (36)	110.99	+1.5	94.24	110.69	3.39	109.40	93.21	108.83	193.64	93.76	128.96
Mexico (14)	152.01	+2.6	129.07	379.92	0.94	148.11	126.20	370.19	422.59	90.07	128.06
Netherland (37)	99.52	+1.0	84.51	87.06	5.17	98.58	84.00	86.50	131.41	87.70	104.02
New Zealand (24)	69.44	+2.2	58.96	55.27	5.94	67.92	57.87	54.82	138.99	66.87	86.38
Norway (24)	102.44	+0.5	86.99	89.72	3.45	101.89	86.81	89.61	185.01	95.51	111.21
Singapore (26)	101.83	+0.6	86.47	94.91	2.52	101.20	86.22	94.15	174.28	81.21	113.75
South Africa (61)	123.55	+3.2	104.91	76.62	5.44	119.68	101.97	74.75	198.09	100.00	112.99
Spain (43)	133.23	+0.3	113.13	116.37	3.50	132.80	113.15	116.50	168.81	100.00	113.37
Sweden (32)	109.86	+1.4	93.29	98.97	2.65	108.37	92.34	97.62	136.64	88.50	97.86
Switzerland (53)	79.40	+2.2	67.42	69.09	2.41	77.70	66.21	67.78	111.11	73.65	97.83
United Kingdom (328)	125.65	+0.6	106.70	106.70	4.41	124.87	106.40	106.40	162.87	99.65	117.75
USA (586)	105.14	+0.0	89.28	105.14	3.56	105.14	89.59	105.14	137.42	91.21	115.42
Europe (967)	99.97	+1.2	84.89	87.33	3.91	98.81	84.19	86.59	130.02	92.25	106.72
Pacific Basin (682)	145.66	+1.6	123.68	120.77	0.77	143.39	122.18	119.87	158.77	100.00	111.83
Euro–Pacific (1649)	127.40	+1.5	108.18	107.44	1.76	125.58	107.00	106.60	143.65	100.00	109.79
North America (713)	105.58	+0.1	89.65	105.08	3.53	105.50	89.89	105.00	137.55	91.68	115.61
Europe Ex. UK (639)	84.02	+1.7	71.35	75.14	3.46	82.64	70.41	74.12	111.97	78.89	95.11
Pacific Ex. Japan (225)	90.19	+1.0	76.58	85.19	4.91	89.26	76.06	84.64	164.03	82.92	105.77
World Ex. US (1851)	126.90	+1.5	107.76	107.11	1.84	125.07	106.57	106.24	143.38	100.00	110.18
World Ex. UK (2109)	117.77	+1.0	100.00	106.36	2.22	116.61	99.36	105.76	138.82	100.00	111.71
World Ex. So. Af. (2376)	118.43	+0.9	100.56	106.60	2.40	117.31	99.96	106.04	139.47	100.00	112.23
World Ex. Japan (1980)	103.22	+0.5	87.65	97.77	3.73	102.70	87.50	97.38	134.22	92.98	112.20
The World Index (2437)	118.46	+1.0	100.59	106.39	2.42	117.33	99.97	105.82	139.73	100.00	112.24

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local).

US market closed February 15.
Latest prices were unavailable for this edition.

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SECTION III

FINANCIAL TIMES SURVEY

Construction has been maintaining a rapid pace in London and the South East. However, contractors are concerned about long-term issues such as a growing shortage of building land, more VAT, and the arrival of Japanese construction groups. **Andrew Taylor** reports.

BUILDING

Big increase in workloads

HIGH ABOVE the City of London the great cranes heave and strain as yet more glass, concrete and steel offices start to climb out of the ground.

To the east lies London's former docklands where Europe's biggest office development has just started at Canary Wharf. South lies the Kent coast and the beginning of the Channel Tunnel, destined to become one of the world's great construction projects.

It has, in the words of the industry, been a scintillating year for British construction. London and South East England have led the way with a massive increase in workloads which has left the region gasping for breath and contractors worrying about where the skills are going to come from to complete all the developments planned.

There is unlikely to be any let-up in pace during 1988, with industry analysts forecasting a further increase in ootpnt of between 3 and 5 per cent, depending on whether Channel Tunnel orders are included in the forecasts.

Longer term, the collapse in share prices and worries about overheating in the private housing market are casting a shadow over the industry. It will be some months however before any effects are likely to be felt on the building site.

Many of the developments which will be built this year are either under way or are so far advanced in planning and funding that developers are committed to starting construction.

Factors likely to affect construction output during the next few years include:

● The impact the fall in share prices has had on demand for office space in central London, with cutbacks in staff already announced by a number of large financial services groups.

● Possible imposition of Value Added Tax on commercial construction under the European Community rules – which could push up the cost of office rents to bodies currently VAT tax exempt, such as banks, pension funds and insurance groups.

● Movements in interest rates; builders hope that interest rates will stay low and mitigate any impact on investment confidence caused by the stock market crash – this could be particularly important to private housing in areas such as London's docklands where a high proportion of shareowners and investment professionals live.

● The proposed privatisation of the water and electricity industries, with construction companies increasingly looking for ways of using private finance to supplement public spending on infrastructure.

● The Housing Bill, which is designed to encourage greater private investment in rented housing. This will mean further cutbacks in local authority new bnilding programmes - falls which, in the short term at least, seem unlikely to be offset by a corresponding increase in private investment in rented accommodation.

Other concerns likely to occupy the minds of contractors include the recent arrival of Japaneae construction groups and US construction management companies, anxious to share in the booming UK construction market.

British contractors and building material companies which have invested in the US will also be worrying about the effect of the dollar's slide on overseas earnings.

Morgan Grenfell Securities aays Britain's top 15 building material companies earn an average 19 per cent of their turnover in the US. The brokers add that the top 15 British contractors have recently earned 21 per cent of turnover in the US, mostly as a result of acquisitions.

Building material companies will continue to worry abont imports to the UK. Cement manufacturers continue to learn to live without their price fixing cartel which they abandoned a year ago after 53 years. Plasterboard manufacturers face new competition, both British and foreign.

British government efforts to encourage investment in the inner cities will be watched closely by construction companies, most of which, rather cynically, do not expect to see any significant increase in workloads apart from one or two highly-publicised schemes.

Skill shortages and the need to improve training schemes to fill the gap will continue to occupy the mind of industry.

But the greatest concern will be over the stock market slide and the longer-term implications this may have for investment and in particular for the London office market.

Mr Michael Cassidy, chairman of the City of London Corporation's planning committee, following Black Monday warned: "Future planning must take into account that financial markets may never again be as buoyant and that development needs will change."

Financial institutions which have announced redundancy plans this year inclnde: Midland Bank, which is pulling out of the UK institutional equity market; County Natwest, the investment banking arm of National Westminster Bank; Barclays de Zoete Wedd, the securities firm; Credit Suisse Buckmaster & Moore, stockbrokers; L.F. Rothschild the New York securities firm; Citicorp, the US bank; Hongkong and Shanghai Banking Corporation; Canadian Imperial Bank and Merrill Lynch, the US securities honse.

So far these setbacks have failed to make any significant impact on the City office market and there is little evidence, for the moment, to indicate that rents and lettings are about to go into reverse.

Few deals, if any, have collapsed because of problems in the financial markets. Large amounts of office space are still under construction and a number of new bnildings are planned to start shortly.

Jones Lang Wootton, commercial estate agents and chartered surveyors, estimates that 8m sq ft of office accommodation is under construction in the City, which currently has a total office area of about 65-70m sq ft.

Most of the 8m sq ft under construction has already found tenants, leaving just under 2m sq ft not already spoken for, say the agents.

In addition, planning consents have been granted for a further 12.9m sq ft of City office space which has still to enter the development pipeline. Many of these proposed developments are refurbishments or schemes planned to be constructed on sites where older offices; some no more than 20 years old, will be demolished.

Most forecasters expect that the current growth phase in British construction activity – output has risen in every single year since 1981 – will have become rather lackinstre by 1989. Most expect output to rise by only about 0.5 per cent that year.

That would still leave construction activity at its highest level since the early 1970s.

Private sector investment is likely to continue to lead the way, reflecting both the recent improvement in the British economy and the continuing transfer of nationalised industries back to private ownership.

Private housing and office development, particularly in London and the South East, were two of the biggest contributors to last year's 7 per cent rise in output - the highest annual rate of growth since the mid-1960s.

Houaing and offices are expected to remain important sectors during 1988 but there are likely to be subtle changes in the shape of the market.

Regional markets, like the West Midlands, are becoming more important as economic recovery has spread from the South East to other regions

Birmingham, beaten 15 months ago by Barcelona in the competition to stage the 1992 Olympics, has more than £1bn of construction work under way or proposed, according to local officials.

Schemes include a £250m redevelopment of the Bull Ring shopping centre; a £180m city centre shopping market and sports hall, and a £120m convention centre funded partly by the National Exhibition Centre and partly by European Community grants.

James Capel, stockbrokers, says closer examination of government figures shows that construction orders, expressed in constant prices, increased by 7.4 per cent in 1986 with most of the gain concentrated in the South East. During 1987 orders are thought to to have risen by about 15 per cent but with increases spread mnch more evenly around the country.

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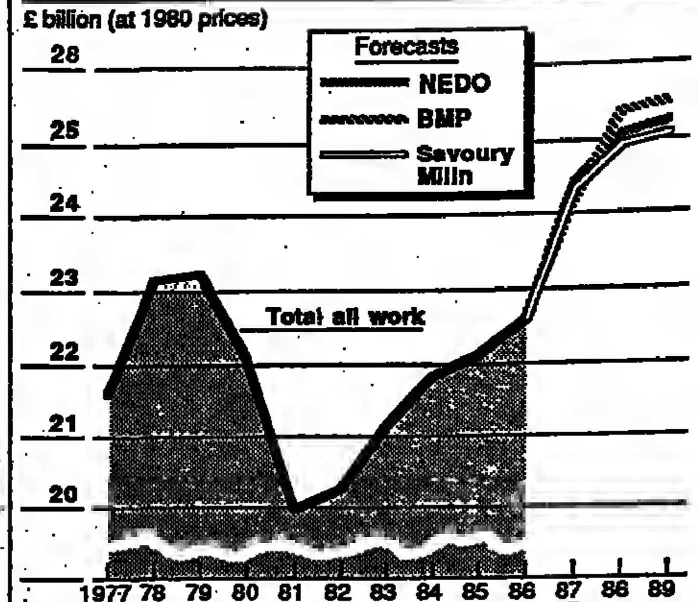
Illustration: John Betten

Construction output



Source: NEDO,BMP &SBCI Savory Milln

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Rail systems

Fertile plans

PLANS TO BUILD a new generation of mass transport systems are likely to provide one of the most fertile areas for international construction orders as eome of the world's biggest cities seek to relieve the strain from overcrowed roads.

Many of the propoeals to build tram, light railway and underground train networks call for a mixture of private and public finance to pay for construction.

But it will require close co-operation between national and local government and private landowners, investors and construction companies, if developments are to be successfully financed in this way.

Plans for privately-financed mass transit schemes in Britain have been mooted by a number of cities. Among the most most advanced are proposals from Bristol, Manchester, Birmingham, and in the South East for a new rail link between Heathrow Airport and Paddington Station.

The Government has already given the go-ahead for a £40m mixed-funded light railway system in Manchester for which Manchester City Council will provide part of the public sector's share of the cost.

However, British local authorities have less flexibility to offer financial and planning inducements than cities in the Far East and US which have mnch more local autonomy and are more freewheeling in style.

Mr Nicolas Lethbridge, an assistant director of Schroders merchant bank, currently advising on the privatisation of the Mass Rapid Transit Corporation in Singapore, says US cities in addition to providing part of the capital cost may also issue special revenue bonds to underwrite part of the future income of private transport investors.

Dallas for exampls has a one per cent sales tax which goes to the city's public transport authority which is proposing to build a mixed-financed metro in the city.

US planning laws also permit authorities to be more adventurous in offering planning permission to encourage investors to back local transport developments.

Nationalised industries and public authorities such as British Rail and the London Docklands Development Corporation have been investigating similar ways of using property development as a lever to raise private investment to pay for public transport facilities.

British Rail by allowing private developers to build above and around the mainline stations at Liverpool Street and Victoria, has been able to use the proceeds to pay for the redevelopment of the stations.

London Transport is considering similar plans to raise private investment to refurbish some of its Underground stations – following the example of the Hong Kong mass transit railway which exploited property development to build some of its stations.

Olympia & York, the Canadian developer of the Canary Wharf office project on the Isle of Dogs in London's docklands, has already agreed to meet the cost of s westerly extension of the dockland's railway to Bank Underground station in tbe city.

Andrew Taylor

Proposals are being made for ambitious private projects

Reviving the Victorian spirit

A PROPOSAL to build a privately-financed eight-lane motorway beneath London marks the latest attempt by a British construction company to rekindle the entrepeneurial spirit of the great Victorian engineers, who raided private fortunes to build and run railways in the 18th century.

The proposal by Richard Costain, the mining and construction group, which has an annual turnover approaching £1bn a year, would involve financing and building a 16-mile motorway tunnel in a submerged tube beneath the bed of the River Thames.

It is just one of a series of international proposals by construction companies to tap private finance to build and operate pnblic services such as roads, railways, power stations, airports, water and sewerage plants.

These efforts have been stimulated by moves by governments worldwide to cut public sector borrowing, reducing construction export orders in the process by more than a third since 1981.

Examples of British companies involved in privately-financed infrastructure projects include Freeman Fox and Partners, the consulting engineers wbich designed the $385m Eastern Harbour tunnel crossing in Hong Kong.

Freeman Fox, now called Acer following its merger with engineering consultants John Taylor, also designed the Sidney Harbour Tunnel crossing in Australia.

Both projects are being financed privately by Kumagai Gumi, the large Japanese contractor, which will obtain its return by charging tolls to use the tunnels.

Trafalgar House is another British company with high hopes of winning privately-financed infrastructure projects abroad. Ths construction, property, shipping and hotels group is bidding to build the third Bosporus bridge in Turkey whicb ls expected to be financed privately.

Trafalgar is also thought to be pursuing privately-financed road contracts in Indonesia. In 1986 the group won a concession from the British Government to build a privately-financed road bridge across the River Thames at Dartford.

However, the Government's experience of getting privately-funded projects off the ground has been surprisingly mixed for an administration which champions private sector enterprise and initiative.

Several schemes have foundered on what contractors claim is Treasury ambivalence towards private financing schemes. Trafalgar House won the concession to build the Dartford crossing only after the Cabinet over-ruled Treasury objections.

Even then, Treasury officials tried, unsuccessfully, to deduct the cost of the bridge from the public sector transport budget, the contractors say.

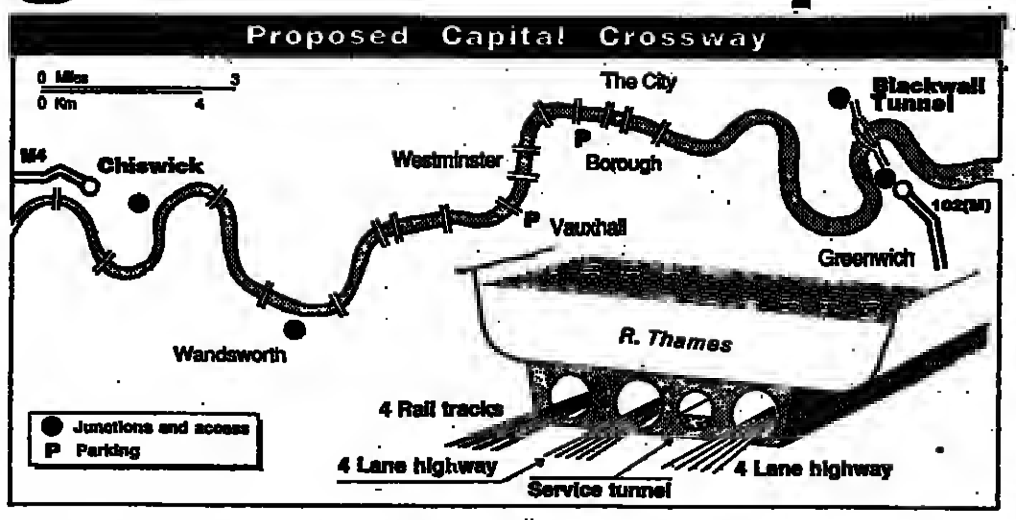
They claim the wording of Treasury rules, designed to ensure that privately-financed

Construction companies want to tap private finance to build and operate public services

projects produce valuc for money, makes it very difficult for any project to be approved.

They also take exception to Treasury's insistence that private investment should not be used as a lever to increase national spending on infrastructure on the grounds that government spending targets should determine what proportion of national resources should prudently be spent on infrastructure, irrespective of whether projects are financed publicly or privately.

Much of the incentive for contractors to propose privately-financed projects would be removed if these schemes do not result in any increase in the industry's workload.



But it is the wording of the Ryrie Rules, which is the biggest bone of contention between construction companiee and Treasury officials. The rules established in 1981 by a working party under the chairmanship of Sir William Ryrie, then a senior Treasury official stipulate:

- Finance must be raised at competitive rates and entirely at the risk of the private investors; there must be no direct or indirect state financial guarantees.
- The higher cost of raising money from the private sector must be offset by cost savings elsewhere in the project.

Contractors claim the rules make it almost impossible for any scheme to be approved as it is very difficult to identify savings which could not technically be achieved under public management.

Developments which have previously fallen foul of the Ryrie Rules include a West Midlands road proposed by Tarmac, an East Anglian sewerage scheme at Flag Fen and the private financing of the Westminster Conference and Exhibition Centre. So far only the conference centre has bcen built, using public money.

Construction companies are also perturbed by recent attempts by MPs to incorporate a windshield in the designs for the new Dartford Bridge which, according to Trafalgar House, would significantly increase the cost of the project and could force the company re-submit its financial proposals.

MPs voted to include thc windshield during special select committee hearings of the Dartford Crossing Bill. Ministers, not wishing to delay the Bill but anxious not to disrupt the project, are expected to propose a partial rather than total windshield.

Contractors are concerned however that MPs should seek to change the rules halfway through the game when companies may have already spent large sums of money preparing their proposals and getting them accepted by the Transport Department and by commercial investors.

Mr Patrick de Pelet, a director of Kleinwort Benson, the merchant bank which advised Trafalgar House on the Dartford Crossing proposal, says confusing signals from government create uncertainty and do not encourage private companies to bring forward private financing proposals.

None of this has prevented companies from proposing some fairly ambitious schemes. Costain in addition to its plans for a new London underground motorway has proposed two other grand transport designs: a privately-owned high-speed rail network across South East England which would link with the Channel Tunnel, and a plan to turn the M25 motorway round London into a split highway by constructing an extra road deck 40 to 60 feet above the existing road.

Costain says its plans are not very advanced but it has chosen to publicise them at this early stage to try to generate the kind of dialogue between government, construction companies and financial institutions which would be needed if these ventures, and others like them, are to have any chance of success.

Other construction companies such as Tarmac, Wimpey and John Mowlem have formed consortia capable of building privately-financed prisons and hospitals.

John Mowlem privately financed, built and now operates the short take-off and landing airport (Stolport)in the London docklands. It is investigating possibilities for building other Stolports at Sheffield, Cardiff and in Paris.

Trafalgar House and John Laing have formed separate joint ventures with privately-owned French water companies, to take advantage of government proposals to privatise Britain's water industry. Trafalgar House bas also prepared plans to take advantage of plans to privatise the electricity supply industry.

Many of these schemes are just dreams at the moment. If Britain wants such initiatives to succeed and become more commonplace, it will need to encourage much greater co-operation between national and local government, construction companies and financial institutions.

It could do well to study countries like France, which has had private water companies operating since 1853, the US where virtually every other city has plans to tap private finance to help pay for public transport projects, and in the Far East where there is much more recent experience of private financing schemes.

A common denominator in all these countries is the preparedness of pnblic authorities to work closely with private companies in winning workboth at home and overseas.

Andrew Taylor

Though there are uncertainties, sectors such as retailing are buoyant in much of the UK

Developers weigh City prospects

UNCERTAINTIES ON the stock market have caught the property development and investment industry at a time when it is finely poised.

After a period when returns from property had sharply increased, when the sky had always seemed the limit, questions were being asked about how long the boom would last.

It is true that the market crash has sharply diminished the possibilities of expansion through the issue of high-priced paper. But it is equally true that developments, and plans for development, have continued apace. And this has not been confined to London and the South East. It has been a UK-wide phenomenon.

The key effect of the market crash has been to remove what had been perceived as the certainty of sustained growth in the City of London. It is not that the market will stop growing now, but that it might reach a plateau sooner than once expected.

Like everybody else, developers and investors are still trying to weight the effects of retrenchment in the securities houses against the countervailing factors of London's position as an international financial centre and the rising demands of the services industries.

The point is that the conditions affecting the City of London are individual to that district, although they might have some spill-over into branch activities of financial houses in major regional centres.

The property market in the regions, though, is far more tightly linked to movements in the national economy. The property industry as a whole has tended to push to the background warning signals like the balance of payments figures and has been working on the assumption that economic growth will continue.

Indeed, activity has increased to the extent that worries have emerged about the supply of skilled labour and the way that this is being siphoned into the South East.

In the North West, some companies are said to be paying a premium to construction workers not to go to London. In South Wales, the Bailey Group has reported that at a development in Treforest, brickwork labour costs have increased 27 per cent since October.

This is not to suggest that there is a boom everywhere and in all sectors. The picture, rather, is patchy.

Generally, the retail development sector remains buoyant. Developers have been searching for sites in market towns and for schemes in city centres. They have been promoting the construction of major centres on the edge of, and outside, major conurbations, especially where there are motorway connections.

At the end of last year, Hillier Parker, the chartered surveyors, reported that the amount of shopping centre floorspace in the pipeline was increasing significantly. Between June and September 1987, the total amount of floorspace under construction, with planning consent or proposed, rose from 108m to 130m sq ft.

The increase largely came from new proposals, with out-of-town floor space accounting for the largest proportion. Developers, it appears, have not been deterred by any suggestion that the consumer boom might be easing off.

The Debenhams store in Colchester's new Culver Street shopping centre

In the offices sector, the pressure for development is less even. Broadly, the surplus of space in the regions that had been a characteristic of the early 1980s has been mopped up.

But rents, especially in the areas most markedly affected by the downturn of traditional industry and the recession earlier in the decade, have not been sufficiently high to stimulate much new development.

This would be the case in cities like Liverpool and Newcastle and in areas like Teesside. By contrast there has been greater activity in Manchester and Glasgow and shortages of space emerging in Edinburgh and Cardiff.

Characteristically, the developments have been prompted by indigenous growth and there has been only isolated evidence of a movement of funds by the institutions into regional centres. Often the lack of an ultimate buyer for a speculative development has been, and remains, a deterrent for the developer.

The institutions have continued to concentrate their offices investment in the City of London and the flow of funds has continued since the stock market crash. But the amount of money they have been spending has been less than either owner-occupiers or developers.

Earlier this month, for example, Guardian Royal Exchange Properties in a joint purchase with C. Itoh, the Japanese trading company, paid more than £21m for a Fleet Street building next door to the Daily Express.

At the end of last year, there were 103 development schemes in the City. According to be calculations of Jones, Lang Wootton, chartered surveyors, starts were made on buildings last year to provide 5.8m sq ft of office space and total construction activity covered 8m sq ft, of which just over half had been pre-let.

There is 11.47m sq ft of space in the pipeline - that is where planning consent has been granted but where construction has not started and there were outstanding planning applications for a further 8.3m sq ft.

At the moment potential take-up of speculative space, according to JLW research, comes to over 9m sq ft. On a statistical basis this could not be met in its entirety by construction already under way. So a key factor for the market over the next few months will be the extent to which projects with planning consent go ahead.

But the prospects over the medium term are further confused by the Canary Wharf development in London Docklands, where 6m sq ft of office space will be created in the first phase and will start becoming available from about 1990.

That space, which is being offered to occupants at total accommodation prices which would be about 25 per cent of those in the City itself, will become a potent market factor at around the time most estimates suggest there will be a rough supply-demand balance in the City.

There are then grounds for caution, not about the immediate prospects but about the longer-term outlook for the City, a factor of which the City planners are well aware. Their free and easy days are over and they will be scrutinising more carefully the projects to which they give planning permission.

Paul Cheeseright

Professional staff and skilled workers are at a premium while pay rates are rising, as **Peter Bill** explains.

Shortages of tradesmen to feed the boom

IT MAY BE just a feeling but there are those in the construction industry, panicking six months ago, who now feel slightly calmer when contemplating where the labour is to come from to feed the construction boom.

The word seems to have shone out into the darkness of the black economy: there is legitimate money to be made once again.

There has been a 100,000 rise in tax certificates for the self-employed in two years - far more than the number of bricklayers, carpenters and other skilled workers being trained. Now more than half the 600,000 of the 1m building workers are self-employed.

But making professional managers, trained engineers, skilled architects and surveyors re-appear from the gloom is not an option. They are simply not there. Adding to the 300,000 technical, professional and clerical staff takes time. It is not really happening, and as those trying hard to staff the Channel Tunnel will testify, it is a real problem.

First the worries about blue-collar jobs. Currently the balance between supply and demand is precarious. No more so than in London.

"We are not in a panic here - more of a pressure situation," says Mr Peter Shapcott, director of the London region of the Building Employers Confederation. "Work is not being held up in any significant way, but there are local problems."

Docklands is the real pressure point, he says. Here the BEC in cooperation with the Manpower Services Commission and the Construction Industry Training Board is in the middle of trying to quantify the need and find somewhere to train the thousands of workers needed to build such projects as Canary Wharf.

"We are determined to avoid major dislocations," Mr Shapcott says.

Moving in parallel to the rise in workload in London is the rise in pay. For a nine-hour shift, rates for self-employed carpenters and bricklayers rates have risen up to 25 per cent in the past year to between £55 and £60 a day on the big sites.

Labourers' pay has moved more slowly, by about 10 per cent to £35 per day.

Last month's survey of 600 members of the BEC was the most optimistic for 15 years. Two thirds of companies are working at full capacity; three quarters expect to win more work this year.

The dark side of this sunny outlook is labour shortages. A year ago about half the companies reported difficulties in finding labour. Today four construction companies out of five complain about the scarcity of bricklayers and carpenters.

In London the problem is now almost universal. Here 98 per cent of respondents to the survey complained that bricklayers were difficult to find. In the East of England the figure is 95 per cent.

Carpenters are nearly as scarce. In London and the East of England 96 per cent of contractors cannot find enough of them. In the Midlands the figure is 88 per cent and the South 89 per cent.

Problems over the supply of skilled labour has been evident in the South for at least a year. But it has been spreading northwards.

The BEC trade survey shows a heartening increase from 32 to 59 per cent of companies in Scotland reporting more inquiries. But with the first ripples of the boom washing over Glasgow and Edinburgh, the best labour is starting to disappear.

"There are indications now that contractors cannot get *good* bricklayers or joiners," says Bob Campbell, director of the Scottish Building Employers Federation. "The change came in the last quarter of 1987. At the beginning of the upturn there was a problem but now firms seem to be finding the labour.

"Not many people go down to London from up here; it's just that little bit far."

The BEC December survey backs Campbell's feelings. More than half the companies in Scotland cannot get enough carpenters now. For bricklayers the figure is 42 per cent.

Rates for self-employed carpenters and bricklayers have risen up to 25 per cent, in parallel with the rising workload in London. Four out of five construction companies have difficulty finding skilled people to do the work.

But one factor which helps ease the problem in Scotland, Mr Campbell says, is the tradition of training. The country produces only 10 per cent of the UK's £30bn construction output but manages to train 20 per cent of all the skilled labour.

This is partly because over half the Scottish labour force is directly employed, Mr Campbell feels. With them, training youngsters is much easier than with the self-employed. The other reason, he says, is Scots builders intelligent use of the CITB and YTS training grants. "We make full use of them."

In Manchester the employers' confederation is more concerned. Mr John McDonald, the BEC industrial relations officer, says there are two problems: "People are still going south, and there is no sign of it lessening." This, and an upturn in the North West was starting to cause problems.

"We haven't got to the stage of labour downing tools on one site and walking off to another for higher pay. The ball is still just about in the employers' court. But last year you could select the top labour; now you have to pay top money for *second and third division operatives.*"

In the North West 69 per cent of companies are short of bricklayers and 57 per cent are short of carpenters. In Bristol things, if anything, look slightly worse. But Michael Knight, regional director for the BEC in the South-West, sees hope.

"Finding tradesmen is very difficult but people are coping. Operatives are finding their way back into the industry. However, big jobs like the housing at Bradley Stoke is putting a tremendous strain on the supply of trained labour.

"The industry is resilient. We had a problem in the autumn, but in the past three months it has got better. The people just seem to appear. Nevertheless, 97 per cent of BEC members complain of the scarcity of bricklayers and 90 per cent of a shortage of carpenters.

In London, one of the major *suppliers of sub-contract labour* is more worried than the official voices. "The whole problem here is not getting the men - its getting the accommodation to put them in," says Dan O'Neill of McGinley Construction.

He feels that in the next 12 months all the skilled labour his company is presently finding in the north of England and Ireland will be soaked op. "Then we go to plan B - finding labour from wherever we can. We have already written to the to the EC immigration office in Paris asking for help."

The traditional hunting ground - Ireland - is also becoming sparse, he says. "There are now 110,000 Irishmen illegally in the US, many of them are tradesmen who traditionally would come to Britain."

That traditional marker of scarcity - rising salaries - is bringing smiles to the faces of architects, engineers and quantity surveyors. Their employers working on fixed fees or prices may scowl. But pay levels have risen by up to five times the inflation rate.

In January the remuneration advisers Monks reported that pay of industry managers was up 19 per cent in 12 months - 10 per cent on basic salaries, the rest in bonus. Lower down the scale recruitment specialist Montrose Construction Services reports rises of up to 22 per cent for site agents in the Midlands.

The Agency says average salaries for young quantity surveyors were up 16 per cent to £12,300 in the South and West; and by the same percentage to £11,375 in the Midlands. Site engineers pay had gone up by 14 per cent in the south, and 11 per cent in London.

Demand has not slackened in the traditionally quiet post Christmas period, says Andy Scope, general manager of Montrose. "We came back to work on January 4 and within a couple of days we were doing as much as we were before Christmas. Demand is just as hard.

"We are struggling to get people to come in but the vacancies are still coming in; there has been no slackening off in demand from employers.

"The industry is leagues behind others in selling itself to potential staff. The fall in school leavers will soon start to bite. Then we will have to learn to sell ourselves, Mr Scope says.

One of the shopping malls in the 2m sq ft-plus MetroCentre, Gateshead, claimed to be Europe's largest out of town shopping centre. Phase Three, now in its final stages, incorporates a children's fantasy park

THE Reagan-Gorbachev summit in Washington had barely ended when an East Anglian estate agent was advertising that house purchasers should hurry because prices were bound to go up as cruise missile bases and protestors would be leaving.

The opportunism, optimism, and bared-faced cheek of estate agents are perennial even if other aspects of the housing market change.

Factors which are likely to influence and shape the British housing market during the next year or so include:

- The worldwide slide in share prices and the effect this is likely to have on the British economy and the housing market in particular.
- Movements in interest rates; builders hope lower interest rates and ready availability of mortgage finance may offset any decline in confidence following the stock market crash.
- More planning battles between builders and conservationists as developers propose more country towns and large scale housing developments in rural and semi-rural areas.
- A widening gap between house prices and average salaries which is pricing even those on moderate salaries out of the housing market in southern and eastern England.
- The inheritance factor, which will become increasingly important as previous generations of house owners die and pass on the proceeds to their children.

Signs of housing price resistance in South East, but ...

Impact of share prices slide may be slight

Morgan Grenfell estimates that property inheritance flows are running at about £7bn a year. Some of this money will find its way back into the housing market as people use the proceeds from their inheritance to repay mortgages earlier or to break into the market for the first time.

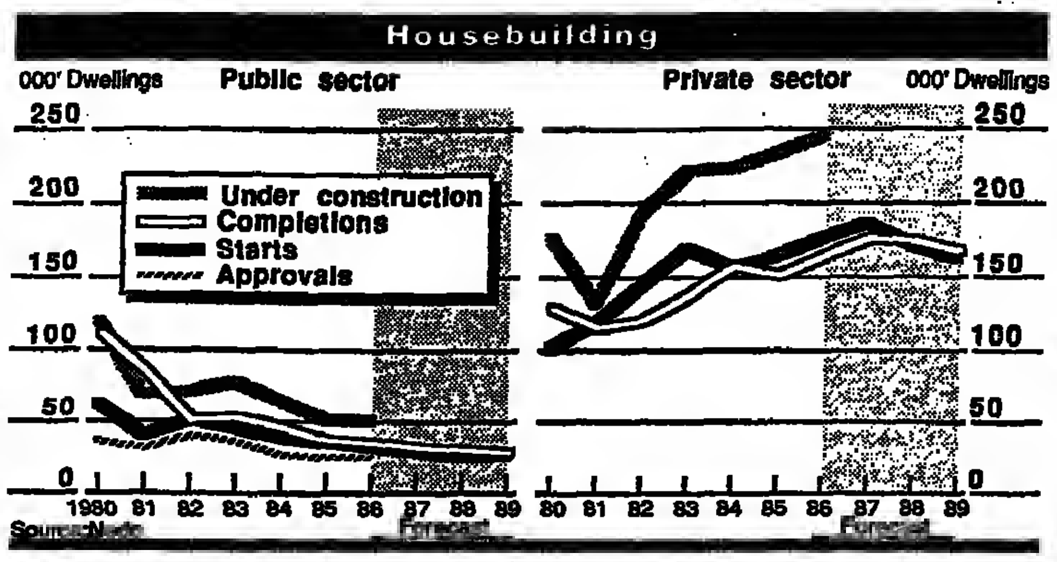
The Housing Bill currently going through committee stage in the Commons will have a significant impact on private sector provision of rented housing although it is unlikely to increase housebuilders' workloads in the short term.

Builders will be more concerned about the impact the stock market crash may have on sales.

So far the housing market has been largely unscathed by stock market problems. House prices mostly have continued to rise and agents even reported slightly higher sales than normal over Christmas, when the market traditionally is at its lowest ebb.

Most forecasters expect the slide in share prices to have very little impact on house prices nationally given that shares account for only 7 per cent of personal wealth in the UK.

London docklands may be an exception. Prices in docklands have fallen sharply since Black Monday and there have been cases of would-be purchasers forgoing deposits rather than complete their purchases.



The Henley Centre has lowered its forecasts for house price increases in London because of the threat of further job losses and salary reductions at financial services companies in the City.

It says price rises in London could even fall below general inflation rates this summer. The centre nonetheless expects prices in London to rise by 6.7 per cent this year; before the crash it was forecasting a 10.6 per cent rise for London.

Nationally the centre expects prices to rise by around 12.5 per cent this year, lower than the 15 per cent achieved last year, but still well ahead of forecast inflation.

Most forecasters also expect the number of starts made on new private homes to dip slightly this year after 196,000 starts were made in 1987, the highest number for 15 years.

Nonetheless the year has begun well for housebuilders. Stockbrokers Barclays de Zoete Wedd (BZW) says, after talking to 30 builders, that prices are still rising and the weather has been unseasonably favourable for building.

"Nevertheless, there are a few clouds on the horizon," say the brokers. "There is some evidence of price resistance in parts of the South East, an historically high price to earnings ratio, and the spectre of landbanks which may have been bought with over-optimistic expectations for price inflation.

"For these reasons we expect housing starts to have peaked last year, completions to peak this year and for both to decline in 1989," says BZW.

Savory Milln, a rival firm of brokers, rather cynically points out that the housing market always does less well the year after an election.

Building societies are particularly concerned at the pace at which house prices have been rising, outstripping the ability of even those in work to buy their own home.

A report last year by the Conservative-controlled Association of District Councils and the School of Advanced Urban Studies in Bristol found that up to 35 per cent of those in work in parts of the South East, notably Hampshire and Essex, could no longer afford to buy their own home.

House prices in East Anglia and South East England rose on average last year by between 20 and 30 per cent. According to Nationwide, Britain's third largest building society, an average-priced home now costs almost £47,700, approaching four times the national average wage.

The last time the house price to income ratio was this high was in the early 1970s when annual house price increases fell from 42 per cent to 4.5 per cent in three years, the society says.

It does not expect a similar collapse – prices measured against general inflation actually fell in the mid 1970s – but it does expect prices to pause while incomes catch up.

One of the biggest influences on prices is the cost of land. In South East England land with planning permission can cost more than £1m an acre, according to Mr Alan Cherry, chairman of the House-Builders Federation.

Mr Cherry, chairman and managing director of Countryside, currently one of the South East's busiest housebuilders, says the shortage of good-quality sites in rural and semi-rural areas, where people increasingly want to live, is likely to remain a major problem for developers who face strong opposition from conservationists, residents' pressure groups, local politicians and local authority planners.

The issue has thrown builders, some of whom are among the Government's strongest supporters, into direct conflict with Tory voters in the shire counties which want to restrict further development in the areas in which they live.

It is a dilemma which Ministers have still to resolve. Statements by a succession of Environment Ministers have tended to contradict each other, stressing on the one hand the sanctity of the countryside and on the other the need to find alternative uses for redundant agricultural land and buildings.

However, some builders believe they may be starting to win the battle following the granting of planning approval for a new 3,500-home development on the outskirts of Harlow, Essex and the decision by Mr Nicholas Ridley, Environment Secretary, to include 7,000 more homes in the structure plan for Berkshire than is wanted by the county council.

Waiting in the wings are a host of proposals for new country towns and so-called neighbourhood developments which have been proposed by some of the country's largest housebuilders.

These will provide a major test of planning attitudes both of local authorities and the Government as it seeks to tackle the problems of homelessness in urban and rural areas.

Andrew Taylor

Housing Bill

New lease of life for the rented market

THE HOUSING BILL proposes the most sweeping reforms to Britain's housing market for more than 30 years.

It aims to restrict the role of local authorities as major providers of housing and to encourage private investment in rented housing by removing rent restrictions on new lettings and requiring voluntary housing associations to raise a greater proportion of their funds from the private sector.

The right of tenants to have rents independently assessed and set under the fair rent system is to be scrapped and rents will be expected to rise high enough to allow private investors a satisfactory return on their money.

Council tenants will be given the right to choose a different landlord. Housing Action Trusts (HATs), with similar planning and land assembly powers as urban development corporations, will take over responsibility from local authorities for running problem estates which eventually will be sold off.

William Waldegrave: economic logic

The aim according to Mr William Waldegrave, the Housing Minister, is "to apply simple economic logic to a sector of the housing market which has been smothered virtually to extinction by the effects of muddled thinking and prejudice."

The impact of the Bill is being felt even before it has become law.

Some councils have already begun to transfer management of individual estates to housing associations which, under the Bill, will be expected to play a major role in developing mixed public and privately-funded rented housing schemes.

Local authorities in some parts of London have sold problem tower blocks to private companies which have substantially renovated the buildings and converted them into privately-rented luxury flats, with no problem in finding tenants.

Building societies, even before the Bill was proposed, had developed a range of mortgage services to help housing associations provide rented and shared ownership schemes aimed at the less well-off who cannot afford to buy their own homes and cannot find, adequate council housing.

Societies in future will be looking for new ways to break into the rented housing market and not just providing housing for the needy.

Nationwide Anglia, Britain's third largest building society, in the same week as the Housing Bill was published announced plans to provide up to £500m in mortgages to a joint venture company it is establishing to acquire homes for private renting.

The joint venture company, Quality Street, established with four former employees of Glasgow district council's housing management department, proposes to provide rented accommodation for a wide range of incomes and needs from company flats for business people to housing for the needy.

Quality Street plans to own and manage more than 40,000 private rented homes by 1992 in cities such as Glasgow (where the company will start), Edinburgh, Dundee, Liverpool, Newcastle upon Tyne and London.

Housing associations too are looking at new ways of raising finance. Under the Housing Bill they will be expected to raise between 60 and 70 per cent of their funds from the private sector.

An independent investment body to raise private finance for association schemes by issuing bonds on the capital market has been established by the Housing Corporation, which administers more than 2,000 housing associations and by the National Federation of Housing Associations.

The fund issued its first package of bonds just before Christmas, raising £31m for six housing associations.

The associations are concerned however about the effect higher rents will have on their tenants. They say the high cost of housing land in areas in London makes it difficult to compete with returns available from home ownership, which receives a large subsidy in the form of mortgage tax relief.

Rents will have to rise sharply if returns are to be sufficiently competitive enough to encourage private investors to back schemes.

The Government insists housing benefit will be available to help those who cannot afford higher rents, but the associations say this will not help people whose incomes are just above the threshold for qualifying for housing benefit or who are eligible for only a small entitlement.

These people could find themselves paying up to 40 per cent of their net income on increased rents, according to the associations.

They say they welcome any initiative that might increase their funds but not at the expense of pricing their traditional tenants, the disadvantaged and the poor, out of the market. For this reason they are not opposing the Bill outright but will try to amend it during the committee stage in the Commons.

They would like, for example, to see some kind of safety net introduced to prevent tenants from paying too high a proportion of their income on rents. The associations are also concerned at the possibility of disreputable Rachman-style private landlords taking advantage of the proposed legislation.

The changes are unlikely to promote an immediate increase in new housing development. Indeed building of new houses by the public sector is likely to decline further.

On the other hand, renovation and improvement work may increase if bona fide private landlords are encouraged to improve older properties and return to the rented market.

Andrew Taylor

Building materials

Imports bring growing trade gap

THE OFFICIAL figures have yet to be produced but a little extrapolation makes it clear that the UK trade deficit in building materials in 1987 will be about £2bn equivalent to three quarters of the total trade gap.

Static exports and soaring imports trebled the gulf to £1.67m between 1982 and 1986. Last year it widened by a further £434m to almost quadruple the figure six years ago.

What is causing these macro-movements is simple. A strongly recovering home construction industry is busily sucking in imports from a sluggish European market and mopping up the small export capacity of the British producers.

This surge in output - which most forecasters expect to have been around 7 per cent in 1987 - has strained the materials industry to the limits. It seems to be coping - just.

Take bricks. "People were really tearing their hair out last autumn," says one manufacturer. "Officially there was no shortage - but delivery dates were going from weeks to months. But the situation has now eased."

This might be because manufacturers have invested £65m in new production lines over the past two years and a further £50m investment is planned.

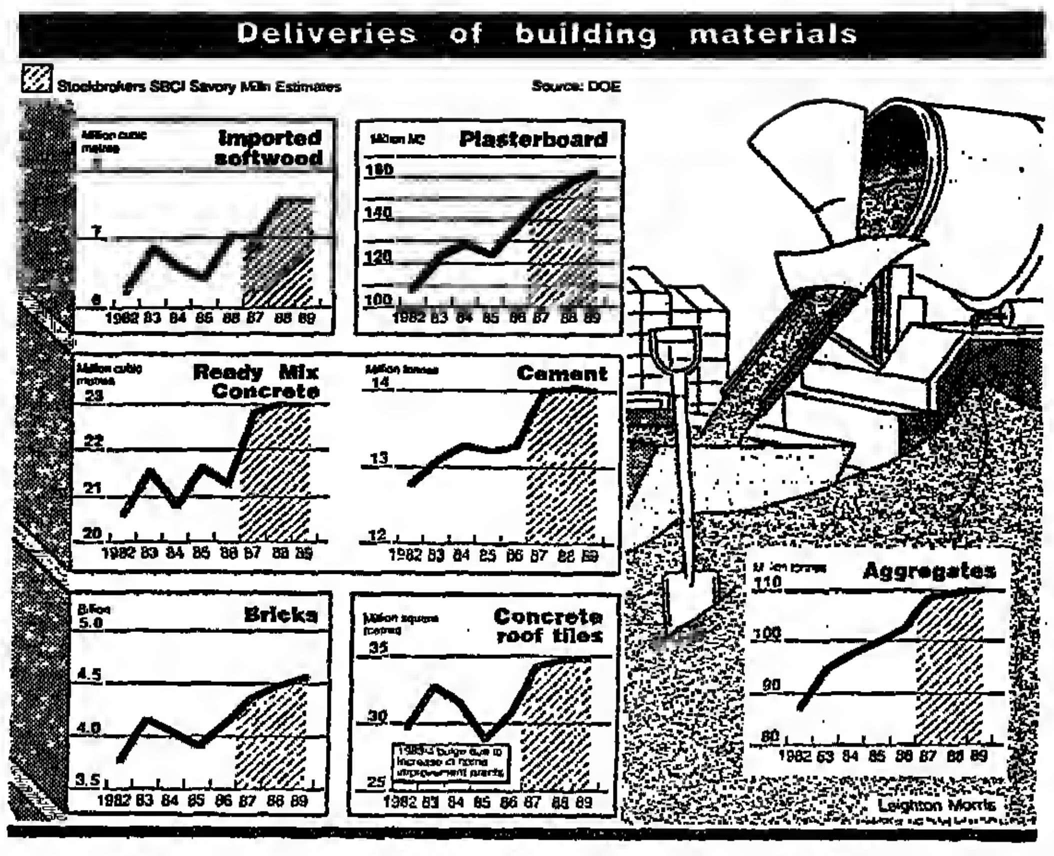
First signs of this new capacity came in last month's brick stock figures. After almost two years of decline, they rose by 18 per cent in the fourth quarter of 1987.

London Brick, which has suffered most complaints, has spent £20m on new lines which will increase capacity by 10 per cent to 14 per cent by October. It is just about coping with demand, says Mr David Lepla, national sales manager.

"We are literally delivering every brick we can make. We worked three days over Christmas to catch up but that lead has evaporated now."

Mr Lepla says delivery times for standard bricks is a minimum of six weeks. Special facings can take up to 18 weeks. "Most major builders give us delivery schedules. Generally we are meeting them. I am sure the situation is getting better."

Mike Payne, the national purchasing manager for Wimpey Homes, agrees. "If you expect to pick bricks off the shelf it is



Exports/imports of building materials (£000s)

Year	Imports	Exports	Deficit
1982	1,844	1,305	539
1983	2,278	1,355	923
1984	2,627	1,447	1,180
1985	2,711	1,607	1,104
1986	3,025	1,459	1,566
1987	3,500	1,600	2,000

* Estimate

Source: DoE

difficult. But with planned deliveries we are not getting trouble."

Cement deliveries have not been a problem. But it was the threat rather then the reality of rising imports which broke the cement manufacturers cartel last February. Minimal amounts of Greek and Spanish cement coming into the UK was the straw which forced the three major makers into abandoning their common pricing agreement.

"There has been little change in the price of cement since the ending of the cartel," said David Battersby, purchasing director of the medium-sized Staffordshire builder Linford. "Several attempts have been made to increase prices, but these appear to have been resisted by most builders."

A strongly recovering home construction industry is straining UK suppliers to the limits and busily sucking in imports from a sluggish European market

On major projects discounts are "definitely negotiable" said Mr Payne of Wimpey. The real battleground, he said, is with the readymix concrete suppliers. They take 44 per cent of cement output and are getting undisclosed discounts, calculated by some brokers to be as much as 10 per cent. Because of this, said Mr Payne, "we are resisting any talk of price increases."

Mr Battersby said the current boom is causing prices of all building materials to rise. "What we are seeing now is a closed market situation with discounts previously given disappearing." In addition, said Mr Battersby, "prices have increased on a number of materials in recent weeks which do not reflect any cost of living or any other index."

The burgeoning plasterboard market has at long last attracted a flock of rivals keen to carve a slice out of BPB's highly efficient monopoly. Redland covets 30 per cent of the 150m sq metre business. A plant in Bristol is planned to start production in 1990. Knauf, the German maker has less advanced plans for a factory in Kent and Eternit TAC from Belgium has begun an operation which it hopes will eventually bring 10m sq metres a year into Britain.

To complicate matters, the de-sulphurisation programme just announced for Drax power station will spill out 1.1m tonnes a year of Gypsum, the raw material for plasterboard by 1993.

The outlook for the market when all these plans take effect is uncertain, said stockbrokers SBCI Savory Milln. They calculate the price of plasterboard in the UK is around 16 per cent cheaper in France and Germany. A December circular implies that the incomers will have a hard time undercutting BPB. "The scope for reductions is not great," said the broker.

While BPB might not be that worried by an invasion of its territory the Government is now seriously concerned at the growing level of imports. Just before Christmas construction minister David Trippier told the industry that "this deficit must be tackled. UK material producers must offer UK specifiers more competitive products."

A French government study published earlier this month shows Britain with a 5 per cent share of Inter-Community exports of building materials in 1986; but taking 14.3 per cent of exports. The report from the French Ministry of Trade also produced a country-by-country ratio of EC exports to EC imports. Germany came top at 159. In other words, exports are 59 per cent higher than imports. Italy scored 146 and Belgium/Luxembourg 138. Close to the bottom came France, scoring 71. Then with imports almost twice the volume of exports in 1986 came the UK scoring 54.

Nigel Chaldecott, director-general of the National Council of Building Material Producers thinks closing the trade gap won't be that simple. "First the construction industry is booming in Britain compared to the rest of Europe. So they are all saying 'let's get in there'."

Second, said Chaldecott, "a lot of manufacturers have been bitten by putting in extra capacity only to meet a downturn. Most now say let's plan production to meet a specific level of demand, don't let's be too greedy and go for the lot."

Mr Battersby agrees: "one of the major things which affects the market delivery situation is the fact that most manufacturers have geared down to what they consider to be a general future market requirement and they have little surplus capacity to meet the upturn."

But the trade gap grows. Aluminium imports used in cladding and curtain walling products have jumped from £128m in 1985 to around £175m last year. The value of wall tiles imported has risen 50 per cent in two years. Imported ironmongery has been coming across the Channel even faster. In 1985 it was worth £108m, today £170m.

Exports of structural steel have fallen by 37 per cent to £184m in 1987, while imports have risen by around 25 per cent. Now British fabricators working flat out are being threatened by European, Canadian and perhaps even Korean companies on large projects in London.

Peter Hill

Planning

Unending battle for land

A SOLEMN ritual is expected of every new leader to emerge from the ranks of Britain's builders. Planners and politicians, ancient enemies who cast a ring of steel around the pack's territory, must be castigated for their ignorance and bloody mindedness. Rural conservationists are condemned for depriving the public of homes and comfortable shopping facilities.

This year the script has changed. Mr Allan Cherry was not short of demands for more land when he took his place as president of the House Builders Federation. But he is a shrewd campaigner, experienced enough to see that screaming matches alone will not win this never-ending battle.

Ministers are already coming round to the idea that extra land should be released but are worried by the political consequences of bold action. A full frontal attack there would be counter-productive.

Instead, Mr Cherry urges builders to go out into the world and persuade councils and conservationists that they can improve land rather than despoil it, by planting woods, improving villages, soaking up surplus farmland, and creating jobs in fully-serviced communities.

Whether this will see quick results is doubtful. The ideal of inviolate pastures and a cynical mistrust of the profit motive will be hard nuts to crack.

On the other hand, this year may prove a milestone in the attitude of the Government, which holds the whip hand on the release of land.

Ministers remain immovable on the absolute protection of Green Belts, particularly for the swarm of big shopping centres crowding the drawing boards. But they seem to be bending to the argument that more space may be needed to satisfy soaring demand for houses.

For years, appeals for more land have been rebuffed with arguments that inner city sites are plentiful and most structure plans out in the shires show an adequate supply to meet five years' demand. The inner city argument remains strong in the Government's eyes, but as structure plans are updated to cover the 1990s, Ministers are beginning to look more generous.

In the South East, that may have something to do with the fact that Census figures soon to be published will show that the planners have underestimated demand by something like 50,000 houses in the next decade.

A couple of years ago Mr Nicholas Ridley, the Environment Secretary, was inclined to advise people to move north for cheaper homes when told that shortages were pricing people out of housing. Today he seems more likely to make compromises provided the sacred principle of the Green Belt is upheld.

He rejected plans by a consortium of Britain's top builders to create a new town on Green Belt land at Tillingham Hall in Essex. But he went some way last month to meet demand for new homes in Berkshire.

Planners wanted to cut building from 4,900 homes a year to 1,600 in the early 1990s. Builders wanted a big increase.

Mr Ridley annoyed both sides by agreeing with the planning inspectors that the rate should reduce but only to 3,000 a year.

That means builders should get more than local authorities propose in other structure plan reviews still to be decided. It may not be as much as the industry would like: the House Builders Federation believes that Berkshire will overheat badly even with the land for an extra 7,000 homes.

But the threat of overall cuts of about 10 per cent in building rates looks less likely. New communities like Tillingham Hall seem doomed to fail if they take up Green Belt space.

The recent batch of planning guidance notes from the Government says "a few" new settlements may be needed to ensure that economic growth is not stultified by lack of homes, but in the same breath presumption against greenfield building is reinforced.

But it is increasingly plain that undesignated green land is not inviolate. Mr Cherry's own company, Countryside Properties, has just won permission along with Croudace and Wates for a 3,500-home scheme at Harlow and hopes to repeat the success with another 1,500 at Braintree, both in Essex.

Stansted Airport expansion provides powerful backing for the need for homes. Other schemes proliferating in Hampshire and around Oxford and Cambridge will have to meet the same criteria to get past the starting post.

The Achilles Heel of the Green Belt is land made derelict by mineral workings or redundant statutory undertakings such as water or sewage works, according to Mr Tony Harris of surveyors Rogers Chapman. Local authorities are adopting a more positive trading off renovation of these sites for permission to create houses or shopping. But this makes it even less likely that the Government will release unspoiled land, he says.

Completion of the M25 has created a spate of proposals for out of town centres which need the wide open space of green land. The Government made it crystal clear in its latest planning guidance notes that "proposals for such developments which may be over 100,000 sq ft and up to 1m sq ft or more have no place in the Green Belt."

But it leaves the door open for reclamation of large derelict areas. Planning specialists Montagu Evans also note that for the first time the Government says that some surplus industrial land may be turned over to retail development.

In this sort of light, the Blue Circle/Shearwater scheme for a big shopping and leisure centre on derelict quarries and cement works near Dartford would seem to have a reasonable chance of success, particularly as the local authorities back the suggestion to pull it out of the Green Belt.

It also has the advantage shared with retail schemes north of the Thames at Thurrock, of being on the eastern side of London, where the Government is keen to see development to balance the pressure out in the west.

However, the Prudential's proposed 1m sq ft at Hewitts Farm, Orpington, may have too steep a hill to climb to overcome Green Belt and local authority objections.

Meanwhile, ARC is trying to prove a similar case to Blue Circle by proposing retail and leisure uses for its worked out gravel pits west of London. But it has found that it is not just Green Belts that can pose a problem. Possible congestion on the overloaded M25 has brought objections from the Department of Transport to its Wraysbury proposals.

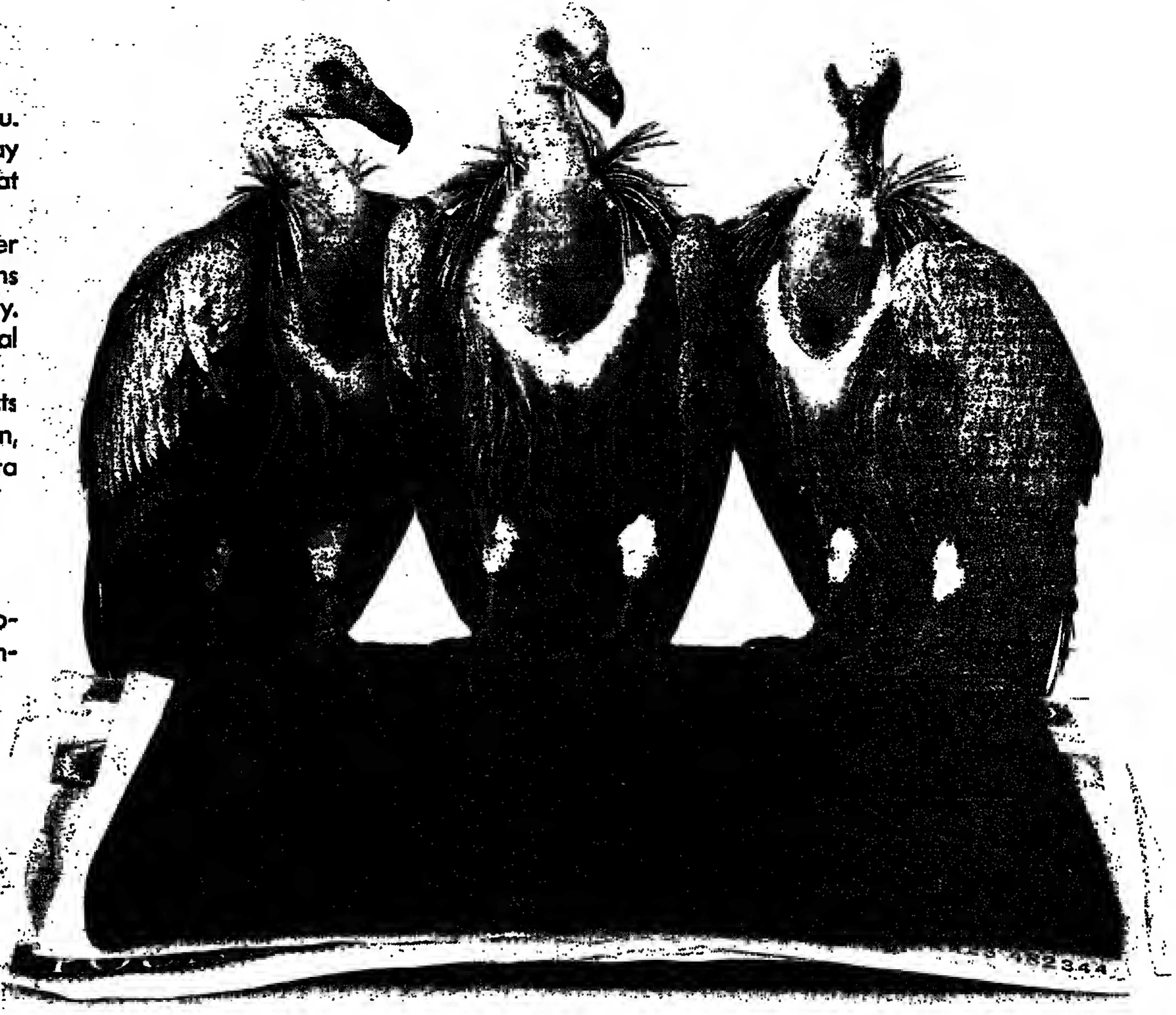
So the next year or two should see a mixed bag of victories and defeats for both housing and commercial developers as they fight for more land in the overcrowded but under-supplied South East. Conservationists remain unrelenting in their battle to keep out most building work and planners refuse to countenance spillover from big towns.

The main hope for builders must lie in Mr Cherry's policies of persuasion and the fact that the Government is far enough away from the next election to withstand the brickbats of its rural supporters.

But in the context of a strong commitment to inner cities and an inflexible stance on Green Belts, it is difficult to believe that housebuilding leaders who follow Mr Cherry will find much reason to alter the ceremony of ritual complaints.

David Lawson

Does it bother you that the owner's role in a building project is just to lie back and open his wallet?



If so, we hove encouraging news for you. We offer a way where you, the owner, stay in control. Where you know exactly what you are getting and what it will cost.

Only, you get it faster and at a lower cost. We cut project time by mony months or even years. We cut costs dramatically. And we offer you all the security of a total contract.

Is it surprising that our method attracts intelligent corporations like IBM, Canon, Scandinavian Airlines, Norsk Dota, Data General, Astra...?

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We don't give o lump sum bid on your project, nor do we enter into incentive contracts.

We don't because it hurts your project. You are forced to take too many decisions too early, something that only leads to unnecessary costs. Even worse, it turns you and us into adversaries instead of partners.

What is the alternative?

You hire us for a fixed fee to monage your project. In the package you get all the specialists, data programs, routines, skills and experience you need for your building project–just as if your own company was a fully-fledged building project manager.

While you're building we ore part of your company. We are your partner.

How do we save time?

Normally, you go through a lengthy design and tendering phase before you can actually start building.

With us, the pre-project phase is much shorter, but it still gives you everything you need to make your decision obout the investment.

All detail designs are mode while we are actually building. We take decisions at the time they are needed. After oll, it is quite feasible to decide on the roof construction while working on the foundations or erecting the structure of your building.

It is this simple approach that attracts intelligent companies.

How do we save money?

We make sure you're integrated down as far as possible into the building process. Your project is broken down into many contracts, which we buy for you from competing contractors. You only pay net prices.

In our system, controctors are not passive suppliers but active partners, oble to influence the design and construction of their own work. Not only does this save money, it increases the quality of your project.

You won't get just five or six lump bids for your project, but several hundred bids for all the different parts of it.

And it's easy to cope with changes along the way. Contrary to the view portrayed by traditional contracting, changes are not necessarily costly.

What is our incentive?

We get our fixed fee. So why should we work like beavers to meet budgets and time schedules?

We seem to have chosen a very tough and unrewarding way to make money.

This is not so. We are professionals. Our motivatian comes from participating in the creation of functional, yet beautiful, buildings–completed on time and within budget. What's more, we find satisfaction in our work.

Nowadays you may find this a bit hard to swallow.

On the other hond, it's very simple to find out what we are like. Our list of references includes everyone we've ever built for.

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Today we are a growing British company eager to show our merits.

We know that on advert is not enough to convince you. But if you have read this far, why not ring us for a meeting.

It won't take more than an hour of your time for us to demonstrate how we can benefit you in your next building project.

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Britain is likely to be out-manoeuvred as Europe's competition laws are overhauled

New standards could open door to imports

THE BIGGEST ever overhaul of Europe's competition laws is under way. The aim is to sweep away all fiscal, technical and regulatory barriers to trade in the European Community and to complete, by 1992, the European dream of a single common market.

The development of a new European wide regulatory structure will be extremely difficult and already the timetable may have slipped. The changes when they are introduced will have profound consequences for the way in which British construction and building material companies operate.

European technical standards, now being compiled, should ensure that Community members will be unable to stop the import of building materials from other Community countries, provided the products satisfy the European standard.

The regulations should provide greater opportunities for exports and make domestic manufacturers compete more keenly in their home market.

However, a great deal depends on what kind of common rules may be introduced. British manufacturers fear they could be disadvantaged if other countries seek to impose their national standards as a basis for a new European standard.

An example of how nations restrict imports is aluminium windows. Aluminium windows tested and approved under British standards cannot be sold in West Germany unless the product has been separately tested and certified under the equivalent German DIN standard.

This is despite the fact that British and German standards are remarkably similar and German aluminimum windows can be sold in Britain without having to be separately certified to British standards, says the British National Council of Building Material Producers.

The introduction of common European standards should help to prevent these kind of trade barriers from developing. British manufacturers worry nonetheless that they still could end up having to invest in expensive retooling to comply with the new standards.

Sir Colin Corness, chairman of Redland, one of Britain's most successful international building material companies, warned in a speech to the council last year: "If we do not now move to promote the adoption of British Standards in Europe we shall be outmanoeuvred by the French and Germans and find ourselves severely disadvantaged in export markets and with an open door to imports."

Manufacturers are just as concerned about the status of the new standards as they are about their wording. Crucially, they want know whether the Commission intends the new regulatory regime to be mandatory or permissive.

Permissive would mean that no product carrying a Community-approved kite mark, or E mark, could be excluded from member countries. This would not prevent manufacturers of non E mark products selling their goods in domestic markets.

A mandatory regime would mean that only products capable of obtaining an E mark could be used in the European Community.

British officials would be strongly opposed to a mandatory system which they say would defeat the purpose of harmonisation, which is intended to increase choice and competition.

Officials have also been concerned that British companies have not been pressing their interests strongly enough. Britain has not been particularly successful in winning the chairmanship of technical committees which will help prepare the new standards.

Most of the committees have been established by Comite Europeen de Normalisation (CEN) whose members are national standards bodies of the 17 countries of the European Community and the European Free Trade Area. The British Standards Institute represents Britain and Deutsches Normenausschauss (DIN) West Germany.

CEN will draft the proposed standards for the Commission. Chairmanship of the technical committees allows the home country to set the agenda for discussion giving it a better chance of influencing the outcome in favour of its own manufacturers.

The National Council of Building Material Producers, in a report to members just before Christmas, said Germany so far held about 50 per cent of the committees compared with Britain's 11 per cent.

"The influence of the German standards in preparation of the Eurostandards will therefore be substantial and possibly detrimental to British export and home markets," the council says.

Contractors should also be concerned about the shape and influence of Community proposals to harmonise competition between member states, says the British Building Employers Confederation and the Federation of Civil Engineering Contractors.

Builders and civil engineers have been particularly concerned about a draft directive proposed by the Commission which sets out penalties for public authorities which fail to satisfy new rules for offering public works contracts to open competition.

The penalties could involve the winner of the contract losing the work even though it may not have been responsible says the BEC and FCEC. This would be unfair, could cost the unfortunate company large sums of money and could lead to higher tender prices.

The federations are also concerned about the wording of proposed directive Com(87) 134 which they believe will force public authorities to abandon select tender lists in favour of completely open tendering.

They say better value for money would be obtained if invitations to tender for public works were issued normally to a select list of proven contractors, including foreign companies.

The use of select lists, particularly for major contracts, means that authorities waste less time examining a long list of tenderers, many of which would have no hope of winning the contract, the builders and civil engineers say.

"Long tender lists lead to delays which affect costs. Tendered prices may be generally higher as contractors react to the change in the balance of commercial risks involved in moving from select list to open tendering."

The BEC and FCEC, backed by other construction industry trade associations on the Continent, believe their lobbying may have been successful in persuading the Commission to modify these proposals.

But even more controversial plans may be waiting in the wings, with the Commission poised to examine ways of harmonising European standards for labour regulations, safety and contract law.

Andrew Taylor

VAT MAY HIT OFFICE DEVELOPMENT

MR Marco Darmon, the French Advocate-General for the European Court of Justice, provided contractors with food for thought just before Christmas when he announced his preliminary opinion on whether Value Added Tax should be paid on new construction work in Britain.

The good news was that Mr Darmon felt VAT should not be charged on private housebuilding. The bad news was that he believed VAT should be charged on industrial and commercial property developments.

Developers have been considering ever since what the implications would be for new investment if the European Court decides to follow the advice of its Advocate-General.

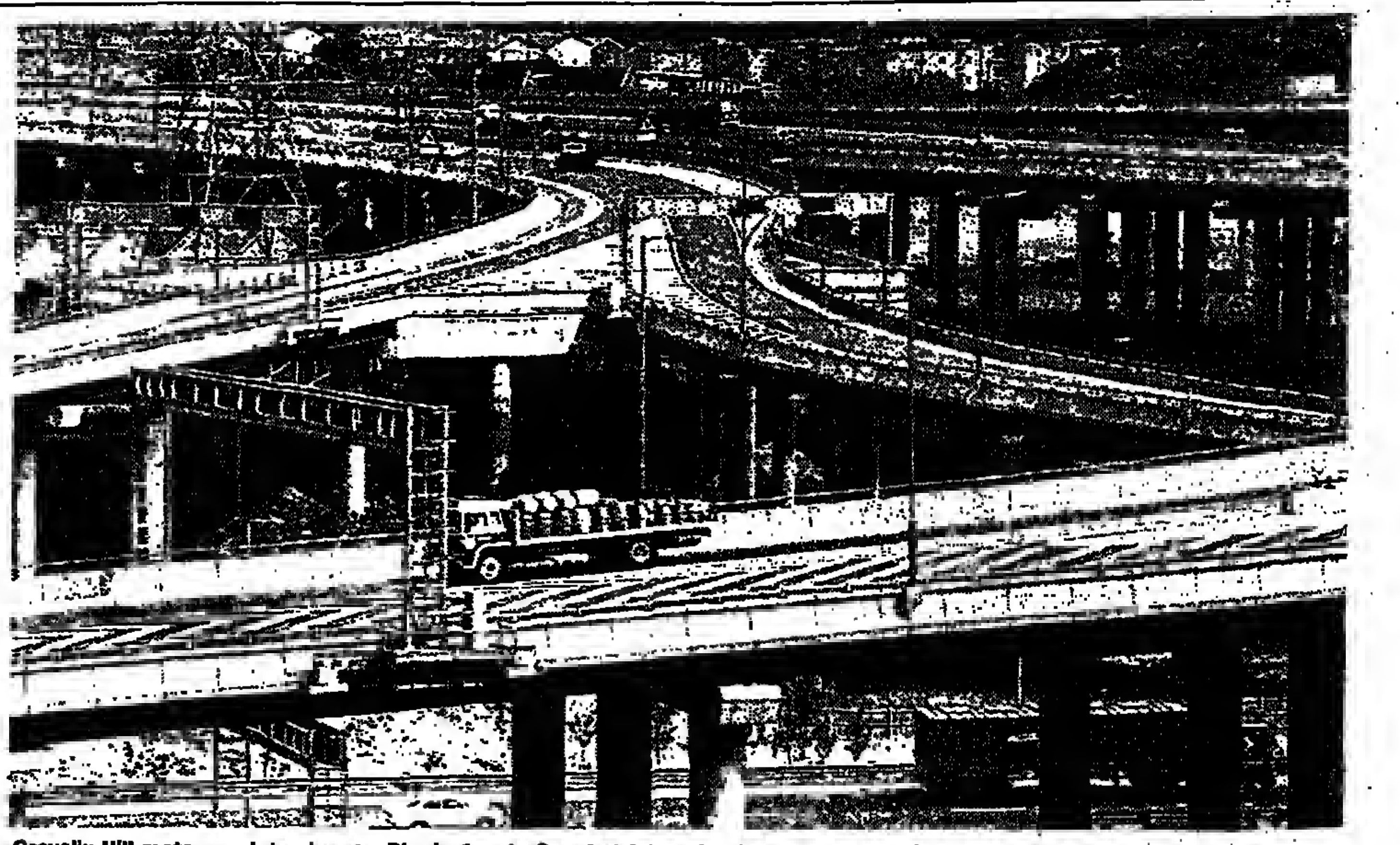
The opinion will be taken into account by the full court when it delivers its final judgment shortly. The court usually follows the Advocate-General's advice, but not always.

Under European Community rules exemption from VAT can only be allowed for clearly-defined social reasons or where the consumer ultimately stands to benefit. Mr Darmon's opinion was that these criteria applied to private housebuilding but not to commercial development.

Office development for financial institutions would be most at risk if VAT was put on commercial building. Banks, pension funds and insurance companies are exempt from paying VAT on their goods and services and so would not be eligible to reclaim any VAT charges on commercial developments which they owned or occupied.

The effect on industrial development would be likely to be marginal as most industrial users are registered for VAT and therefore would be able to recover VAT levied on new building.

The difficulty the industry faces is not knowing how the measures will be applied and what level of VAT might be levied. But some of the answers may be supplied in the forthcoming Budget.



Gravelly Hill motorway interchange. Birmingham's Spaghetti Junction is at the heart of the trunk road network

Roads programme

Cash may not be there

THE MOST striking aspect of Britain's roads programme is the discrepancy between the self-congratulatory tone of the Government and the everyday experience of millions of everyday drivers.

For example, Mr Paul Channon, the Transport Secretary, said recently that capital spending on national roads next year would be 30 per cent higher than a decade ago, and declared: "We are building a better transport system for Britain."

He added: "The money that we are investing now will bring better communications for people, and for industry and commerce, whilst safeguarding the environment and keeping safety paramount."

Mr Channon's comments, which accompanied the Public Spending White Paper, cleverly implied that everyone from road hauliers to environmentalists was benefiting from a huge Government spending programme.

He did not explain why the Government is facing a barrage of criticism from people who think that, far from promising a bright future, Ministers are marching gaily towards disaster.

A few examples give the flavour of the national view:

● The British Road Federation, which represents transport companies, says the Government needs to spend £4bn to build vital new roads and complete repairs on the existing network.

Mr Peter Witt, BRF director, says: "Unless we get action, we are going to have severe congestion. The jams we are seeing now on the M1, M6 and M25 will become much more commonplace throughout the trunk road network."

● The British Aggregate Construction Materials Industries Federation says road repair programmes are so far behind that some councils could be faced with no alternative but to dig up existing roads and replace them.

● The Institute of Civil Engineers says some of Britain's roads are little more than medieval cart tracks, and suggests that the only answer is a major increase in spending or the transfer of some minor roads into private ownership.

● The Audit Commission says that, in many parts of the country, taxpayers' and ratepayers' money is being wasted because of arguments between county and district councils over responsibility for spending.

● The RAC says the Government has shown "an inexcusable lack of foresight" in planning the national road network, and suggests that Ministers are obsessed with short-term savings at the expense of long-term problems.

● The latest National Road Maintenance Condition Survey, carried out by the Government itself, shows that the condition of trunk roads worsened by 23 per cent between 1977 and 1985, and local urban roads by 18.5 per cent.

There are several explanations for the difference between the apparent perceptions of Ministers and other road users.

First, the Government tends to refer only to the national roads network (motorways and trunk roads), which accounts for only 4 per cent of the route network but carries 30 per cent of traffic. This ignores the state of the rest of the network, which carries the remaining 70 per cent but comes under the direct control of county and district councils.

Within the national programme, the answers are in the White Paper, which reveals that the bulk of the spending increases to which Ministers refer have not yet taken place.

For instance, annual capital spending (covering construction and major maintenance) is planned to rise by 35 per cent in cash terms between 1982-83 and 1988-89. But the increase in spending up to the end of last year, 1986-87, was only 13 per cent – not enough to cover inflation.

Over the next two years, spending is forecast at just over £2bn, an increase of about 10 per cent in cash terms on the previous two years, but again not much greater than forecast inflation.

Over the longer term, about 370 major road schemes are in the Transport Department programme, at a forecast cost of some £5bn. But finance for most of these of is not guaranteed, and on past experience many will remain at the planning stage for years.

Most of the roads pressure groups say the detailed plans produced by the Transport Department are insufficient to make up for big cuts in the amount spent in real terms in the 1970s.

Far from producing an expansion, or speeding up, of the roads programme, the next few years are likely to bring a reduction in the progress which has been made, they say.

The picture is perhaps even worse for the majority of roads which are maintained by the local authorities though largely financed by central government.

The amount the authorities spend on roads is controlled by the Government as part of its overall limit on public spending.

Nevertheless, the Transport Department has authorised a 27 per cent increase in current spending (on maintenance) between 1982-83 and 1986-87, with a further 18 per cent increase by the end of 1989.

In theory, this should have led to a reduction in the backlog of maintenance work, and an improvement in the condition of roads. In fact, apart from a minor improvement in the state of rural roads, the opposite has happened.

This is because although the Government "provides" for higher spending by local authorities, it does not actually provide the money (or allow councils to raise it themselves.)

In other words, to take advantage of the Government's apparent largesse, local authorities would have to reduce spending on other services, which are also under pressure.

If total local authority spending rises above the overall limit set by the Government, councils lose rate support grant at the rate of up to £1.50 for every extra pound spent.

As a result, the councils are budgeting to spend 13 per cent below the Government's "provision" of £1.1bn for the current year, and 12 per cent below the level of £1.26bn set for next year.

Nonetheless, Mr Channon puts the blame for falling spending squarely on the local authorities: "We know that local roads are deteriorating; I am therefore very disappointed that authorities are neglecting this essential public asset. I hope they will spend the £1.26bn which I have made available for 1988-89," he says.

Kevin Brown

UK construction companies have no reason to fear an invasion, say their counterparts in Japan. **Ian Rodger** reports from Tokyo

Buoyant domestic market slows overseas drive

THE MUCH worried-about assault by leading Japanese construction companies on the UK market is likely to be postponed for a few years, according to Japanese contractors which have been investing in the UK.

Most of these companies now have their hands full with a suddenly bnoyant domestic market and so they seem less interested in overseas expansion than they were a year ago.

Kumagai Gumi is the exception, still committed to major growth in the UK, but even it appears to have pulled in its horns a bit. A year ago, one of Kumagai's London-based executives was quoted as saying the company was considering acquiring a large local construction company. Now, Mr Fred Kakurai, the group's director for US and European operations, makes clear that the acquisition option has been shelved.

"In the US, it is common for companies to merge. In the UK and Europe, we have no intention to make acquisitions," Mr Kakurai said at Kumagai's Tokyo head office.

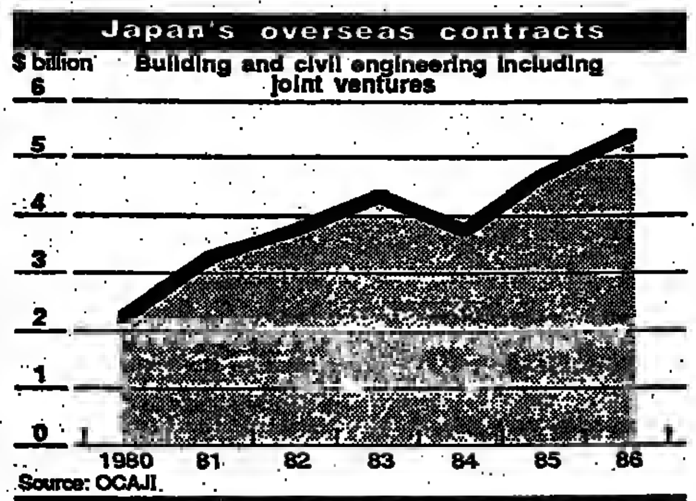
"In the UK, the existing companies are very well established and we would prefer to have good associationa with them."

However, Mr Kakurai also emphasises that Kumagai will continnc to build its UK business, with the emphasis in the short and medium-term on commercial developments in London.

Ohbayashi Gumi, the company that bought the Financial Times building in the City of London last year for £143m, also remains enthusiastic about the UK market. But it says it is carefully assessing various proposals that have been made to it in the wake of the pnblicity surrounding the FT deal.

As for the other big Japanese companies, Shimizu, which is now building a five-atorey building in Old Bond Street, says it has no further ambitions in the UK market for the moment.

Similarly, Kajima, which has purchased a five-storey block in London and is turning it into an intelligent building, says it has no further plans. Taisei, which is remodelling the inside of an office building, and Takenaka, which is supervising small projects, also say they have no further plans.



The main reason for this retrenchment is the companies' excitement about their domestic market. The Japanese construction industry suffered a famine of orders at home for six years, starting in 1981, because of the Government'a attempts to balance its budget.

However, last year the famine ended. Under intense pressure from the US and other governments to reflate its economy, the Japanese Government boosted public works spending by 15 per cent to Y7,217bn (£31.1bn) in the fiscal year that ends on March 31.

It plans to maintain that level of spending this year as well, and most analysts expect that it will continue to do so for several years to help keep domestic demand buoyant while fundamental structural changes in the economy take place.

That means that many huge civil engineering and building projects are in prospect or under way as Japan seeks to bring its woefully inadequate infrastructure up to a developed country standard. Most leading Japanese construction companies will be fully occupied trying to carry them out, leaving little time for overseas orders.

Nomura Securities estimates that total overseas orders for the Japanese construction indnstry will reach only Y660bn this year, down 30 per cent from three years ago.

Also, analysts point out that Japanese companies have been focussing their overseas activity more on the US because of low cost (for Japanese) of buying dollar assets.

According to the Japanese Overseas Construction Association, 41.3 per cent of the Y861.9bn in overseas orders taken in 1986 by Japanese companies were in the US compared with only 6.5 per cent in Europe. "The US is the prime candidate for growth," says Peter Sanborn, a construction analyst at Jardine Fleming (Securities) in Tokyo.

In this context, Kumagal Gumi stands out from the other major Japanese contractors, with a solid and growing commitment to the UK market, both as developer and contractor.

At the moment, the group has six major projects on its books as prime contractor, with construction schedules extending to February, 1994. Thesc include the new City headquarters of Nomura Securities in St Martin's-le-Grand, Distillers House in St James's Square, for which it is also the developer, and s shopping centre complex in Folkestone, a joint venture with Glengate Properties and the redevelopment of the Sun newspaper building in Fleet Street.

Last year, Kumagai went further afield, launching a redevelopment project in Glasgow worth more than £100m in partnership with Bellhouse Securities. The Jspanese firm will build office buildings, hotels and commercial facilities on a 484,000 sq ft site.

Kumagai'a expansion in the UK follows on an equally aggressive growth in the UK where it now has projects worth about $1.2bn nnder development, some with local partners. Mr Kakurai said the focus on the UK rather than elsewhere in Europe was made partly because of the company's long experience working with UK architects and other consultants on projects in Hong Kong where it is a leading developer.

Also, it believes that London, as one of the world's three leading financial centres, will be a particularly stable and low-risk market. Initially, it became active in developments in London with partners, but Mr Kakural says the company now feels knowledgeable enough to work on its own.

"We prefer to act alone as developer and contractor, but there may be circumstances when a joint venture is appropriate, so we are not closing the door," he says.

Kumagai officials have been a bit upset by the recent reportby the Centre for Strategic Studies in Construction on the likely impact of the Japanese construction industry on the UK market.

Mr Kakurai acknowledges that the Japanese companies now seek business aggressively by offering complete packages of development, engineering and financing. But he says other companies are doing the same.

"In the past, the general contractor just waited for clients to come. Now we should associate ourselves with the client, bringing technology and financing," he says. "By advancing projects, wa promote employment."

Professional roles

Challenging decade ahead

FOR THE building industry professions, the next ten years promises to be one of the most challenging periods - and perhaps one of the most traumatic - they have ever faced.

Architects, surveyors and consulting engineers are under increasing pressure to adopt a more commercial and flexible attitude to their role in the construction process. If they do not, many observers believe, a growing number of firms will go out of business altogether or be swallowed up by more progressive rivals.

Behind this threatened upheaval are the accelerating changes in working practices in the industry. On major projects in particular, contractors are becoming involved at all stages of the construction process. And this mean the professions can no longer take their traditional role for granted.

The construction industry - and especially the £9bn a year private commercial and industrial building sector - is booming, and nowhere more than in London and the South East. It is the high demands of the market in that region - stimulated by Big Bang and the London docklands' developments - that have been the catalyst for change.

Buildings, and especially the services they include, are becoming more complex. Computerisation, more sophisticated air conditioning systems and the need to keep abreast of the lastest developments in office technology - for example in fibre optics - are three reasons.

Increasingly, buildings are being designed around the services they will have to provide and this is requiring greater coordination between contractor, client, design team and the services engineer.

Add to this the high price of land, particularly in and around London, and the pressure for shorter construction times, and it is easy to see why there is pressure for change.

In response, clients and contractors have been looking to the US for ideas.

Traditionally in the UK, the client appoints the designer, usually an architect, who becomes leader of the team of advisers on the project. The other advisers will usually be the quantity surveyor and the consulting engineer.

When the designs are well advanced, a contractor will be chosen by the client, usually either by negotiating a contract with a single company or putting the work out to tender.

The major problem with this method is that construction starts only after the design work has been completed. Time is lost and the contractor has no input into the discussions of the design team - input that can often lead to efficiency savings.

Hence the growing use of American-style methods - design and build contracts, project management, construction management and management contracting.

Architects, surveyors, and consulting engineers are under increasing pressure to adopt a more flexible and commercial approach as contractors become involved much earlier in the construction process

The definitions are complex and often confusing, but broadly they are as follows:

● **Design and build:** In the UK, the commonest of the "non-traditional" forms of contract. The contractor is taken on by the client to be responsible, as the name suggests, for the design and construction of the project.

● **Project management:** Specialists who will manage the complete project on behalf of the client. Lehrer McGovern Bovis is project manager of phase one of the huge Canary Wharf project in London's docklands.

● **Construction management:** The construction manager is effectively a construction consultant working alongside the other professions. Construction itself is carried out by sub-contractors who will have a contract directly with the client.

London Bridge City, where Laing was the construction manager, was the project that gave this form of contract a boost in the UK.

● **Management contracting:** The contractor is responsible for managing the construction process. Construction is again carried out by subcontractors but this time they will be contracted not to the client but the management contractor. Bovis was the management contractor for the Lloyd's building.

Today there are more options for UK developers than there have ever been before.

And importantly, the changes increase the possibility of "fast tracking"- in other words allowing the contractor to start work before the final designs are complete.

The result is that the contractor is becoming involved in more projects at an earlier stage, often as a professional adviser to the client rather than as n builder.

The architect is no longer the most likely person to be the client's lead adviser. That position might still be taken by the architect, but it might just as easily go to the quantity surveyor, the consulting engineer or the contractor.

"The developments mean that aach of the professions must be able to take the lead or a secondary role," says Andrew Jones, a partner with quantity surveyors Tillyard.

"The professions will have to become more flexible and commercial to survive, be able to lead a project or fit in with other professionals as the client or the contractual arrangements require.

"There will be certain types of practices that will not survive," he concludes. "But whatever happens, the quantity surveyor's role will remain essential. Cost control advice will have to be maintained through to the building's owner."

Mr Jones' views are echoed by the Royal Institution of Chartered Surveyors which believes that the professions' core activities will stay the same. It is their management role that will alter.

But even that is doubted by Michael Coates, a partner of quantity surveyor Gardiner and Theobald. "The changes are blurring the edges of all the professions; we are all straying into each other's province.

"I don't even know if the professions' core activities will stay the same. For example, we are doing our own construction management and in some cases are in direct competition with contractors."

But that is not something that depresses him. "I believe that the changes are very exciting indeed."

Even the Royal Institute of British Architects is not downhearted, publicly at least, arguing that the role of the architect has never been closely defined.

Many architects themselves are taking a very positive attitude. Jeremy Hogben, a director of Whinney Mckay-Lewis, believes that involving contractors earlier in developments is healthy. "We have got to be flexible and go where the client's best interests are," he says. "The architect will still be designing buildings in future but will have to be prepared to take a lead or secondary role."

But not all professional firms are as positive. Derek Hammond is chairman of Project Management International, the largest independent firm of project managers in the UK.

In his experience, the professions have reacted very slowly to the change in building management procedures, although this situation is set to alter rapidly now that professional firms are becoming incorporated and therefore have the resources to make acquisitions.

As an example, he points to Whinney Mckay-Lewis - one of the first architectural practices to join the unlisted securities market - which bought project managers Johnson Jackson and Jeff last month.

However, it seems there is a danger of over-estimating the extent of the changes. A recent private survey of clients suggested that traditional contracts are still the most popular, followed by design and build and negotiated contracts. Bottom of the poll came construction management.

Do these new methods produce good buildings? Not everybody thinks so. Writing in the annual report of the Royal Fine Arts Commission last October, Lord St John of Fawsley - the former Norman St John Stevas - said the commission is sometimes "dismayed" at the lack of imagination and inspiration of the architects and developers with whom they have to deal.

Graham Anderson

The Tunnel is at last making progress, reports **Graham Anderson**

Digging under the Channel

AFTER THE endless debates in parliament, the problema of raising money and the pomp of the treaty-signing ceremonies, all that matters now is this: can the contractors build the Channel Tunnel safely, within the £4.9bn budget and by the May 1993 deadline?

If the targets are met, in little more than five years' time trains will run between London and Paris in just over three hours. Eurotunnel will offer drivers a train shuttle service taking 35 minutes between Cheriton, near Folkestone, and the outskirts of Calais.

Contractor Transmanche Link and promoter Eurotunnel - the former is building it, the latter will own it for the 55-year concession period - have had scorn poured on the project from many quarters since the go-ahead was formally given in March 1986.

They have had to endure the doubts of some politicians and many financiers, the criticisms of environmentalists and often the xenophobia of some of their compatriots.

Today the atmosphere of relief in TML's offices is clear. The debating is over; all that the five British and five French construction companiea that make up the TML joint venture now have to do is build it.

And all Eurotunnel has to do, in theory at least, is keep a watchful eye on the budgets while sitting back and waiting to be presented with a fully operational cross-channel rail link by May 1993.

In Britain, TML is having trouble shaking the public image - acquired with some justification by the construction industry in the 1970s - that no major project is ever built to time and budget.

The industry's record has improved since then but already TML has been criticised for being up to three months behind schedule.

Certainly, the contractor is not yet working at top speed.

"The delay in Equity Three means that we are having to accelerate into the project quicker than we had originally anticipated," says Mr David Staines, TML's management services director.

"At the moment we are carrying out final detailed tests on the TBM in particular on the efficiency of the cutting head and the steering.

"We are also going over all our working practices so that we can sort out as many potential problems as early as possible - and hopefully lessen the chances of stopping tunnelling once we are at top speed.

"Everyone must know exactly what they are going to do so that, for example, the spoil goes where it is meant to when it is meant to, and the tunnel linings are handled efficiently and effectively.

"Investment in this now will pay dividends in the long run," he adds but stoutly denies that the project is already behind schedule.

The first important target is that "by November, we must have driven 5km of the service tunnel towards France." And, he says, TML is on target for that.

At present, it seems the contractor's greatest problems will not be the tunnelling itself - TML says the project is technically straightforward, just bigger than usual - but shortages of good fully-trained employees.

It is a huge project and it is in a part of the country which has little tradition of heavy industry and where the construction industry is already booming - and showing some signs of overheating.

Construction, according to TML, was well under way on both sides of the Channel by the end of last year despite the problems faced by Eurotunnel over Equity Three in November - the £770m final, and eventually successful, share issue without which the banks would have withheld their £1bn loan for the project.

The main British construction site is at the foot of Shakespeare Cliff on the Kent coast near Dover. In France, work is focussed at Sangatte, outside Calais.

In Keot, the first of the six tunnel boring machines ordered by the British partners is installed and undergoing its final tests. The tunnel borer is now fully buried and moving, although not yet at top apeed.

The cutting head is about 500 metres out under the sea towards France. By the end of March, it should be one kilometre out.

The next macbine is due to be dellvered to the site for assembly in early March.

Three tunnels - each 50km long - will be built, two running tunnels for the trains and between them a small service and emergency exit tunnel.

From a construction chamber below Shakespeare Cliff the tunnellers will work in two directions, out to sea and inland back towards the site of the planned terminal at Cheriton near Folkestone.

At Sangatte, a massive access shaft has been dug straight down into the ground. From the foot of this the French tunnellers, like their British counterparts, will head in two directions: out to sea and inland towards the terminal at Frethun.

Work at Sangatte started earlier than at Shakespeare Cliff, both because the French Parliamentary processes are quicker than Britain's and because the ground on the French coast is the most difficult that the tunnellers are likely to face.

Moat of the tunnelling, the contractors believe, will be through chalk marl, ideal material. But just off the French coast the tunnel will have to leave the chalk marl and pass through an area of fractured, water-bearing rock that will make tunnelling much more difficult.

Preparatory work here is well under way and the Sangatte site took delivery of the first of its five tunnel boring machines in the last week of January, an event marked both by a visit from President Mitterand and a demonstration by the trade union CGT complaining that the tunnel borer had been imported from the US rather than manufactured in France.

The French and British tunnellers should meet under the Channel for the first time late in 1990, when the smaller service tunnel drives are completed.

The running tunnels that will carry the trains are scheduled to be finished in summer 1991. It will take until Christmas 1992 to install the railway system, leaving four months for testing.

At peak TML will employ 4,000 hourly-paid workers on the British side alone and to keep that level up for the duration of construction.

To date, the contractor directly employs just under 800 workers and is taking on about 40 more a week.

The situation with salaried staff is roughly the same. TML currently employs just under 700 and is holding 50 interviews a week out of which it takes on about 15.

Problems are already beginning to emerge. TML has been forced to recruit overseas in Cairo, where British tunnellers are working on the Cairo waste water scheme, Singapore, Hong Kong and more recently Belgium and Holland.

Says David Staines: "Shortages are starting to hit all the major projects. The employment market is so buoyant at the moment that we are having to shop around and potential employees can pick and choose their jobs.

"What is having the greatest effect is the massive increase in refurbishment work. This is often highly skilled and is soaking up many of the best people."

He adds that, apart from looking overseas, TML is being forced to train people who have either not worked directly for the construction industry before or whose skills are not up to scratch.

Whatever problems may lie ahead, the project has already benefited both British and French suppliers. TML has already placed £135m worth of orders in France and a further £175m in the UK, the biggest going to UK company Rom River, for £25m of reinforcement steel.

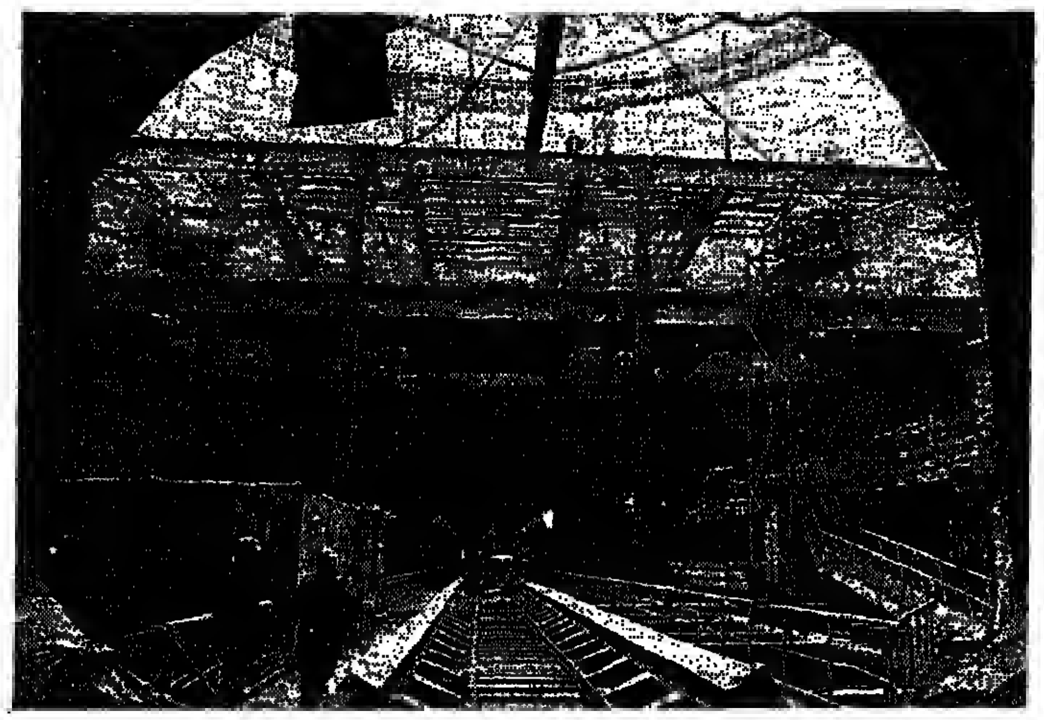
More than £100m of the orders have gone to companies north of London with Scotland taking £36m, the West Midlands £26m, the East Midlands £15m and the North East £12m.

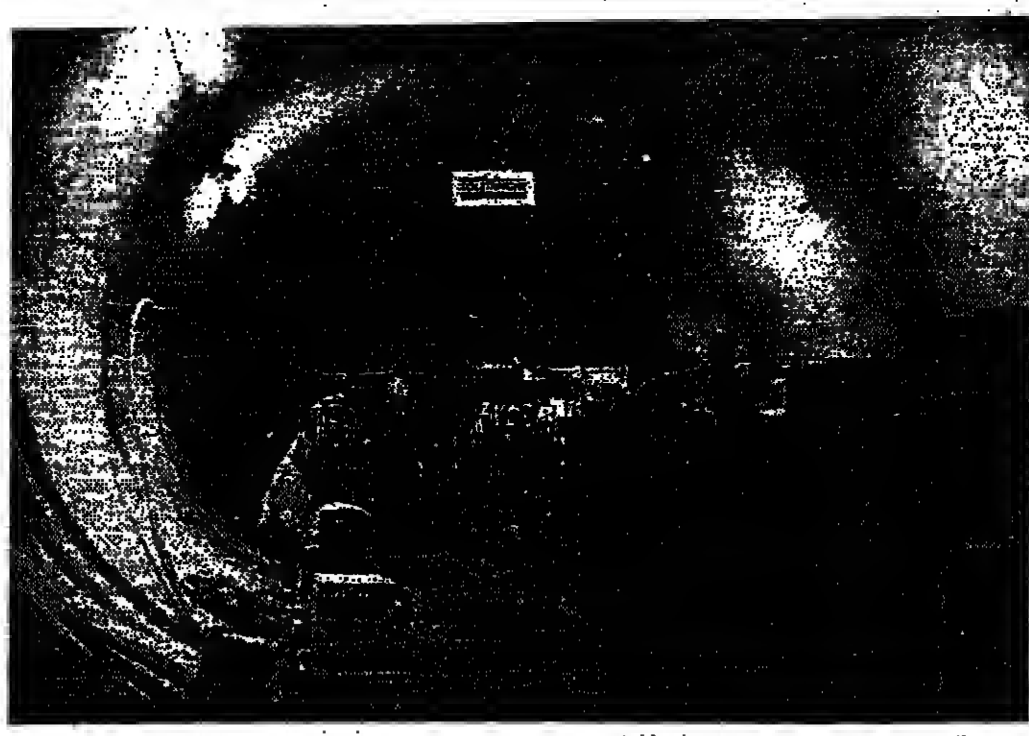
The greatest share of the Scottish orders has been won by James Howden of Glasgow, which is to build four of the six tunnel borers - the two service tunnel machines and the two landward running tunnel machines - at a cost of £21m.

The remaining two tunnelling machines for the seaward running tunnels are being built by a joint venture of Markham from Chesterfield and Robbins from the US.

In all, more than 5,000 orders have been placed this side of the Channel for everything from aggregate, cement, tractors and rack and pin locomotives to temporary accommodation, fencing and transformers.

After 150 years of dreams and plans which did not come to fruition, Eurotunnel and Transmanche Link are optimistic that they will succeed in completing the tunnel and in writing themselves into the history books. But for the boring machines there is still a long way to go.





Far left: The two main tunnels and smaller service tunnel, at centre, take shape at Sangatte; and (left) tunnel boring machine at the face of the service tunnel.

Increase in workloads

Continued from page 1

The Midlands and South West England look to be particularly strong, the brokers say.

Order patterns also point to a further increase in industrial construction this year, reflecting the improved profitability of companles during 1987. However, most forecasters expect growth in construction of factorles and warehouses to slow in 1989.

The South East is likely to remain buoyant with a number of very large commercial developments and infrastructure projects due to be completed over the the next few years.

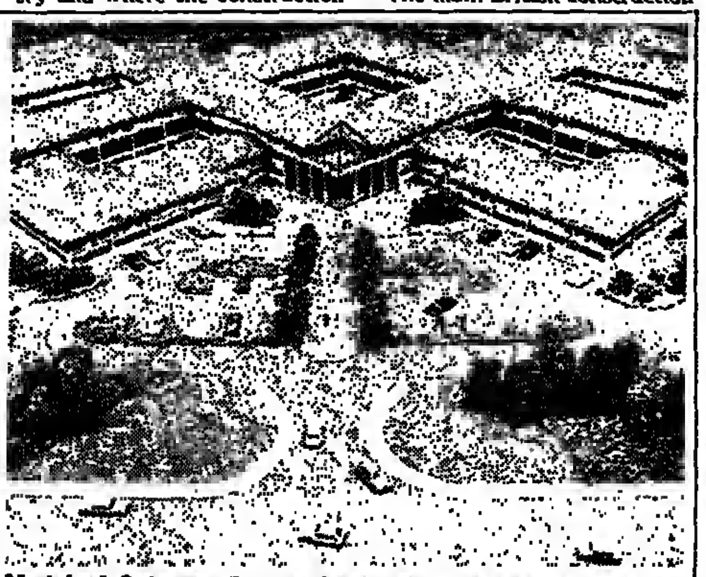
Developments include the £4.7bn Channel Tunnel project; the massive Canary Wharf office development by Olympia & York; expansion of Stansted Airport in Essex which is to be London's third airport; the construction of a new bridge over the River Thames at Dartford; completion by Roschaugh Stanhope of the Broadgate offices development next to Liverpool Street Station in London.

To these must be added other central London office schemes still in the pipeline, the proposed construction of new railways and roads to link with Stansted Airport and the Channel Tunnel, and the continuing redevelopment of London's docklands.

Private housing output is also expected to remain high this year although starts made on new homes are not expected to be quite as high as last year when private housebuilders began work on 195,000 new homes – the highest number for 15 years.

Issues likely to occupy the minds of housebuilders are: the growing shortage of housing land in rural and semi-suburban areas, in places of high demand like the the South East, and the inter-related problem of house prices outstripping wage increases, making it difficult eveo for those in work to afford to buy their own home.

The general feeling of construction analysts is that conditions for the industry are likely to get better before they get worse. What nobody is sure of is how investment and output will fare should the economy start to go into reverse later this year.

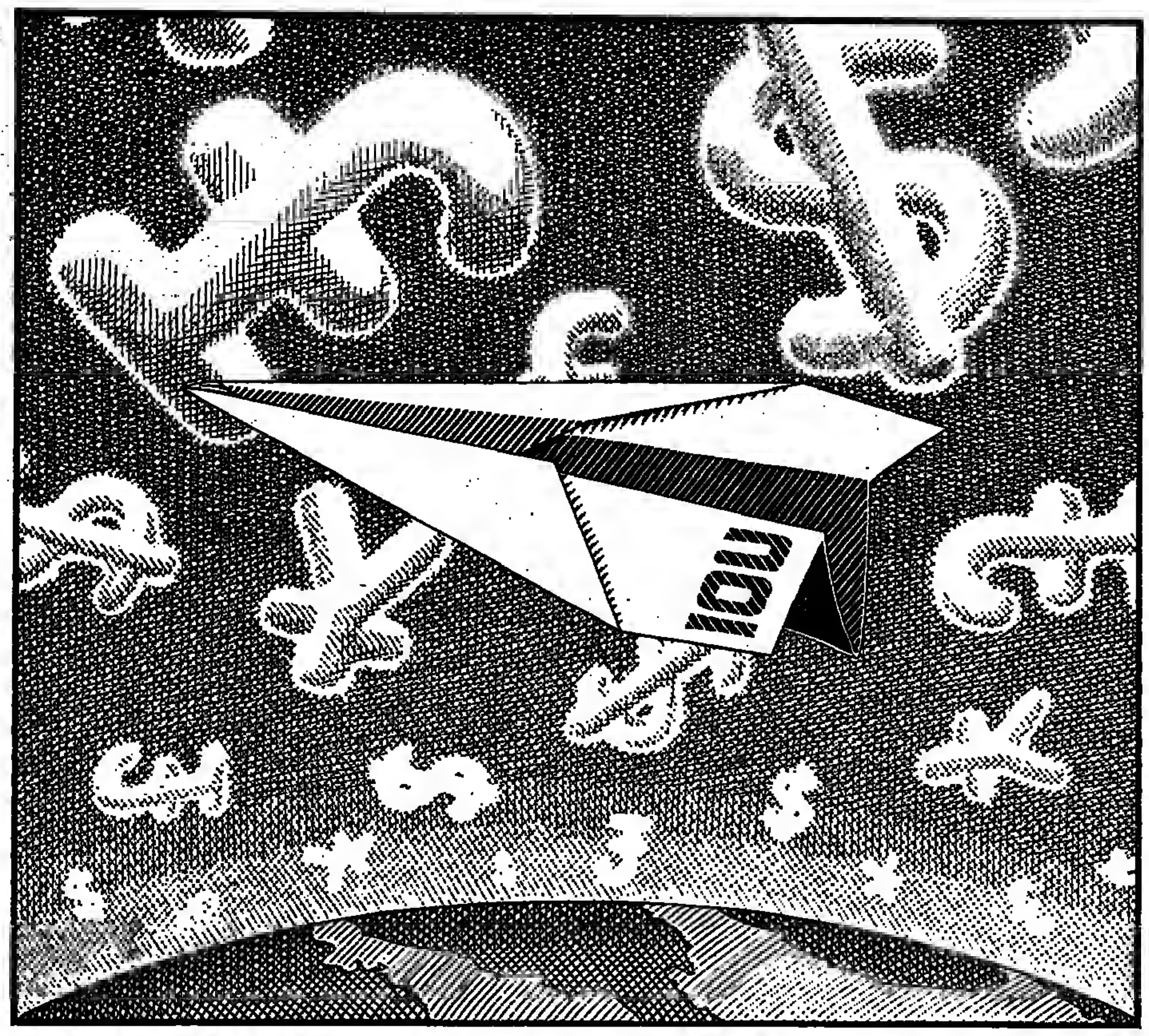


Model of Gateway Foodmarkets' new management centre, under construction at Bristol

SECTION IV

FINANCIAL TIMES SURVEY

Dealers reported an extraordinarily active end to a year in which the Euro CP market, strengthened rather than weakened by the equities crash, doubled in size. **Stephen Fidler** foresees further growth in short-term markets, with new opportunities available to borrowers and lenders.



Commercial Paper

Lifted by the crash

OCTOBER'S WORLDWIDE collapse of share prices has not brought bad news for every sector of the international financial marketplace. As investors sought the relative safety of the short-term markets, they provided an end-year spur for the Eurocommercial paper market, which had already experienced an extraordinary year of growth.

The market in Eurocommercial paper – short-term securities issued in the Euromarkets by countries, companies and banks – remains far smaller than the US domestic market which pre-dated it by many years. But it has taken great strides over the past year and now has the makings of a truly global, multi-currency pool of liquidity for better-quality borrowers to tap.

Concern about the risks of buying corporate paper after the crash caused a hiccough in the company-dominated US market in November and in the ECP market. But dealers reported an extraordinarily active December, and the ECP market at least seems to have been strengthened rather than weakened by the October events.

The crash has brought about an increased emphasis on high-quality paper, which has magnified the importance of US-style credit ratings in the minds of investors in ECP. Yet it has also brought in new investors to the market who were previously placing money in shares and bonds.

The most extraordinary element of the last year has been that the market has roughly doubled in size as the foreign exchange value of the dollar has fallen to progressive new lows.

What has made that possible is the significantly increased use of the forward foreign exchange market, which has allowed those investors and issuers whose natural currency is not dollars to hedge themselves against adverse currency movements.

It has also allowed European and Japanese fund managers and other investors in the short-term markets to diversify credit risks away from their domestic markets, without taking on any currency exposure, to pick up extra yield when compared with their domestic markets. (They are also exposing themselves to extra credit risks against the bank which is carrying out the forward exchange deal, but that so far seems not have been an important concern).

Many market participants believe that outstanding paper could rise sharply again this year, particularly if there is evidence that the dollar is turning round. Then, investors which want unhedged dollars could start to move into the market.

ECP dealers are united in one thing: few, if any, of them are making any money in the business. Yet the last 12 months has seen a division in philosophy emerge and deepen among them.

The strategy of certain prominent houses, such as Citicorp, Shearson Lehman Brothers and Merrill Lynch, suggests that they see the way forward as the pursuit of business in volume. If the market develops as they would wish, it would certainly move the EGP market closer to the US model, where a handful of dealers dominate the market.

Yet the expectation that would follow from this view – that a big shakeout of dealers is inevitable, because it would be impossible for all 40 or so now registered to develop a significant market share – is probably misguided.

There is an array of other motives for remaining as an ECP dealer, including, for example, the importance to banks of relationships with corporate customers and the possibility of developing other, potentially more profitable, products, such as asset-backed commercial paper.

For US banks too, there is a strategic importance in ECP, in that they hope to use it to demonstrate their abilities to push into the business in the United States, where they are moving in on the cartel of investment banks which have dominated the business there.

As a result, there may not be a wholesale pullback from the ECP market. Some firms will undoubtedly leave, but still more are likely to follow the practice of reducing the resources devoted exclusively to ECP by merging ECP with other areas of their money markets.

If asked to devise a list of those most likely to pull out, though, few would have placed Salomon Brothers at the top of it. Its decision in October to withdraw from commercial paper and municipal bond activities shocked many, but did provide a spur for others to fight over the spoils.

The abrupt manner in which the withdrawal was accomplished upset some issuers, not happy either to hear stories from other dealers of their paper being deposited in the secondary market.

Indeed, as this suggests, all in the ECP garden is not rosy. An argument, for example, continues about the role of the secondary market in Eurocommercial paper, despite the claim by some dealers that it is a dead issue.

Nobody these days disagrees that the prime role of an ECP dealer is to place paper with investors who will hold it to maturity. The question arises about what constitutes a guarantee of saleability if that investor changes his mind and wants to sell?

Many dealers point to the US market, where there is no secondary market, as a model. There, the undertaking by dealers to buy back paper is said to be the guarantee of liquidity.

In Europe, it has been suggested that this guarantee to buy back paper has sometimes been somewhat hollow. On occasions, dealers are said to have refused to bid, and others have quoted unrealistic prices. If that is so, then an active secondary market may be useful to keep dealers honest, and may be handy too when your own dealer suddenly pulls out of the market.

It is also important for investors such as central banks – active buyers of top-rated sovereign ECP as a substitute for US Treasury bills, but not significant players in the US market – to trust in market liquidity.

Moreover, the importance of liquidity is heightened in Europe by the longer maturities of the paper. Partly because the ECP market developed from the bank-dominated Euronote market, itself developed as a substitute for the syndicated loans, it is much more common to see rollovers of funds in three or six month maturities While maturities in the US market average a mere 20 days, that figure is more likely to be 80 days in the ECP market.

It is true that many issuers hate the secondary market, because it can foul up their borrowing programmes; and there is evidence this problem has got worse, rather than better, in the last two or three months. If investors are being offered paper in the primary market at a yield up to 10 basis points lower than in the secondary market, why buy in the primary market?

This was supposed to happen in the bad old days of tender panel facilities, but is supposed not to under the more intimate conditions of an ECP programmes, where there are far fewer dealers. The frustration of issuers when it does is understandable, yet the secondary market is only the messenger, not the root of the problem.

Most dealers will say that, of all the paper they place, only 5 per cent comes back into the secondary market as a general rule. Yet, this is not what figures for secondary market turnover produced by the clearing houses suggest.

On examination of these figures in its recent comparison between the US and ECP markets, the Federal Reserve Bank of New York concluded: "Secondary market activity suggests that the average holding period of ECP is roughly half its maturity."

A further examination of the data shows that, in fact, secondary market turnover is related very closely to interest rate movements. When interest rates go up, secondary market activity falls off; and when rates come down, the secondary market revives again.

Since the crash, some investors may well have restructured their portfolios to bias them to higher quality credits – indeed, a number of fund managers did become buyers of sovereign ECP despite the low yields prevailing – consequently pushing up secondary market volumes. Yet it also appears that not everything dealers say about ECP being a placement market should be taken at face value, and it seems the temptation to make a profit out of positioning paper in an environment of falling interest rates is too much for some.

The market has other problems, as epitomised in the critical attitude to it by General Motors Acceptance Corporation, the captive finance company of the US automobile manufacturer that is the world's largest issuer of commercial paper.

Like a number of other US issuers, GMAC will not issue ECP in Europe unless it is at rates competitive with the US market. Because ECP has been uncompetitive in yield, GMAC's outstandings in Europe have fallen to just over $200m from a peak in the late summer of 1986 of over $1bn. The yield gap has generally been most marked in shorter maturities, and less prevalent in the longer maturities.

Part of the reason for the persistent differences in yield lies with the continued use in the ECP market of the interbank market as a yardstick. The new yield benchmarks now published by the Bank of England are an attempt to break the link between ECP rates and interbank rates, but it has not been long enough established to have succeeded in so doing.

Only the paper of sovereign issuers – whose buyers are comparing yield levels with those available on US Treasury bills – has been able to free itself from the Libid/Libor benchmarks.

That said, while higher yields may have discouraged issuers, they have also encouraged

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CONTENTS

☐ *Illustration: Robin Macfarlan*

US CP: pressure mounts to repeal Glass-Steagall

A fragile monopoly

ONE MAJOR question continues to hang over the US commercial peper business – whether commercial banks will eventnally be allowed to underwrite and deal in the paper in direct competition with securities houses.

Debate over the Glass-Steagall Act, which separates the functions and business of banks and securities houses, has become increasingly wearied. The force of the act has, over the years, been eroded significantly and increasingly riven with loopholes.

Nevertheless its provieions still protect a monopoly for securities houses in the rapidly expanding commerciel paper business, which continues to offer American companies a cheap and quick form of ahort-term financing.

The spotlight was trained on Glass-Steagall again last autumn. In late November, Senator William Proxmire, chairman of the powerful Senate Banking Committee, and Senator Jake Garn, the senior member of the committee's Republican minority, introduced a bill to repeal the act.

The move came only a day after a strong call by Mr Alan Greenspan, the new chairman of the Federal Reserve Board, for bank deregulation. It was the first time the Fed had put on record its unambiguous support for total abolition, although it has long displayed itself to be a supporter of repeal.

The Securities Industry Association fought a hard legal battle in 1986 to prevent Bankers Trust from underwriting and selling commercial paper, on the grounds that this would be illegal under Glass-Steagall. The case was brought even though the Fed had decided to authorise the bank to enter this market.

However, at its annual meeting in Florida late last year, even the SIA seemed to have given up hope of keeping Glass-Steagall and. instead, urged a step-by-step approach to abolition.

So eroded is Glass-Steagall that, with some support from the Fed, several banks have made attempts to etart underwriting commercial paper. In March last year, the Fed actually authorised Chase Manhattan bank to participate in this business but. in August, a moratorium was slapped on aspiring banks by the Senate Banking Committee, which prevented any extension of banks' powers for a year while the case for abolition was studied. That moratorium could be lifted on March 1.

The intrusion of commercial banks into this huge business has for a long time been the major market issue.

Mr Leon Wlatrak, senior vice-president in Bank of America's banking, investment and securities division, said commercial banks probably had ebout $20bn to $30bn of the total commercial paper outstanding of around $350bn. Although a small proportion, it provides evidence of the significant inroads made by banks into the preserve of the securities industry, considering the regulations stacked against them.

He sees an advantage for commercial banks in their intimate knowledge of companies' borrowing requirements, and reckons that his bank would epply to the Federal Reserve for permission to underwrite and deal in commercial paper once the necessary restrictions are lifted.

Mr Bracebridge Young, vice-president in charge of Goldman Sachs' commercial paper operation, probably the market leader with Merrill Lynch, says: "The commercial banks would be formidable competitors in the market. They are backed by a lot of capital, and they have good distribution networks."

Nevertheless he feels confident that Goldman Sachs' experience and the good relations built up over the years with corporations will stand his company in good stead. Business had been booming, he said, and there had been no clear impact from October's collapse in share prices.

The amount of commercial peper outstanding stood at $354bn in November, compared with $326bn a year earlier. The November 1987 figure was, however, substantially below October's record of $361bn.

So eroded is the act that several banks have made attempts to start underwriting commercial paper

Market participants uniformly attributed this fall to usual seasonal patterns, rsther than fall-out from the crash. Companies who are active throughout the year, arbitraging in the commercial paper market and therefore building up the asset side of their balance sheets, tend to clean up their accounting towards the end of the year and arbitraging activity winds down.

The share price collapse will probably only have an indirect effect on the market as companies who were hit by losses in other areas of their businesses step up reviews of their strategy. That process was, in fact, alrcady going on before late October.

The most dramatic development in the business for some time came when Salomon Brothers, which had been a major player in commercial paper, announced at the beginning of October that it was pulling out of the business as part of a wide-ranging strategic view aimed at cutting out relatively unprofitable activities. Paine Webber announced shortly afterwards that it, too, was pulling out of commercial paper.

Salomon said it would concentrate its efforts on expanding its merchant banking operations and other advisory, high margin, corporate finance businesses.

The trouble with commercial paper is that it is highly competitive (partly because banks have been building up their activity, if only on an agency basis until Glass-Steagall is totally dismantled), it offers low margins and is resource-intensive. In the aftermath of the crash, it is this kind of activity that houses which face retrenchment, cost cutting and periods of austerity, may forego in favour of more lucrative businesses.

The decision by Salomon Brothers has, of course, made the pickings richer for everyone else in the market. Mr Young cited this as a key reason why Goldman Sachs' operation has been doing so well.

Other, more general positive influences are lower interest rates and the upsurge in merger and acquisition activity since the new year. Companies involved in takeovers tend to borrow short-term funds through commercial paper programmes to tide them over and, only when things have settled down, borrow longer-term funds through the bond or eqnity market.

There have been some exciting innovations and refinements to underwriting commercial paper. One such is the activity which Goldman Sachs terms "universal commercial paper". This is issued in the US and sold to US investors, but denominated in a foreign currency. Goldman Sachs then synthetically creates an equivalent dollar-denominated instrument through the futures market, converting the proceeds of the borrowing back into dollars for the company concerned.

This intricate package means that US companies can borrow in dollars but sttract a different atable of investors who want non-dollar debt.

Goldman Sachs arranged its first universal commercial paper programme about 1½ years ago, and has done around 20 similar deals since then with a volume of $4bn over the last year.

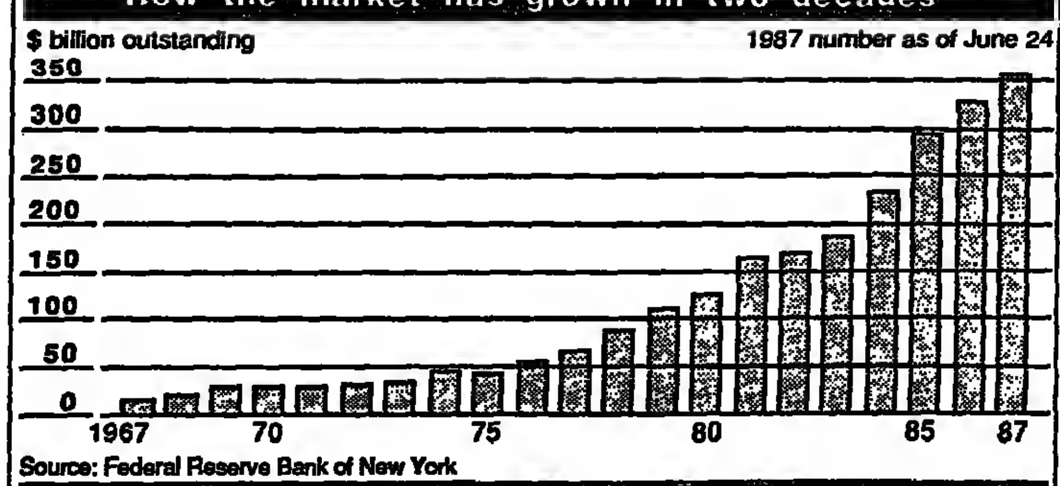
Janet Bush

Commercial paper outstanding ($m)

	All issuers	Total financial	Total non-financial	Total bank-related
JAN. 1985	241,813	171,335	70,478	45,183
FEB.	246,232	174,507	71,725	45,024
MAR.	247,603	176,812	70,791	45,638
APR.	255,913	180,591	75,322	44,585
MAY	259,253	181,645	77,608	45,421
JUNE	259,571	182,815	76,756	45,505
JULY	265,863	187,473	78,390	43,310
AUG.	271,857	194,407	77,450	45,062
SEPT.	278,386	200,987	77,399	45,557
OCT.	283,464	199,531	83,933	44,647
NOV.	292,023	205,886	86,137	43,459
DEC.	293,909	213,739	80,170	46,380
JAN. 1986	297,704	212,097	85,607	38,828
FEB.	297,423	213,590	83,833	38,423
MAR.	298,885	218,742	80,143	38,361
APR.	300,309	221,789	78,520	39,355
MAY	310,364	230,276	80,088	40,584
JUNE	314,598	234,938	79,660	41,715
JULY	313,976	232,718	81,258	40,839
AUG.	322,648	239,498	83,150	42,204
SEPT.	326,967	243,295	83,672	39,435
OCT.	329,955	244,066	85,889	41,129
NOV.	326,538	243,300	83,236	41,241
DEC.	325,948	252,899	73,049	43,125
JAN. 1987	333,719	257,734	75,985	47,370
FEB.	337,325	263,186	74,139	47,896
MAR.	337,133	262,702	74,431	48,749
APR.	349,763	269,578	80,185	50,912
MAY	355,445	276,216	79,229	50,830
JUNE	351,253	272,166	79,067	50,293
JULY	347,421	268,049	79,372	48,665
AUG.	347,916	270.454	77,462	47,891
SEPT.	360,174	280,848	79,326	49,390
OCT.	361,123	279,956	81,167	48,937
NOV.	354,012	273,760	80,252	47,246

Research: Rivka Nachoma

How the market has grown in two decades



Source: Federal Reserve Bank of New York

Lifted by the crash

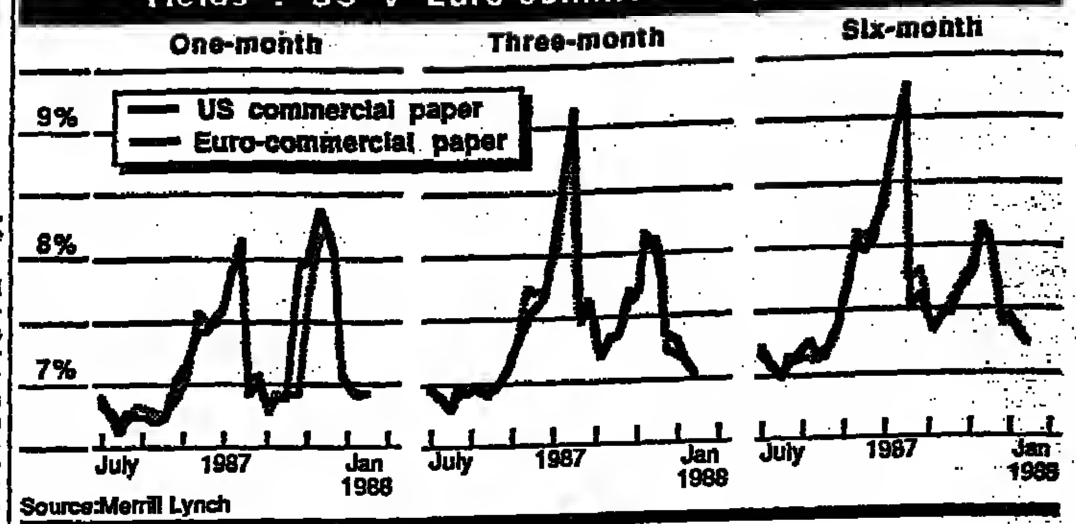
Continued from page 1

investors. Those with the discretion to invest in both markets, such as central banks or offshore funds, will naturally prefer higher yielding European paper.

Over the past year, the ECP market has, if anything, become more of a segmented market. Credit quality concerns have pushed the paper from the lesser rated or non-rated borrowers increasingly on to the books of banks, which usually require yields firmly fixed over Libor. At the high quality end, it has often been borrowers other than investors which have acted as the constraint on issuance, as more fund managers seek lower yielding paper.

The prospects for the year ahead suggest more growth, and more choice for investors. Last year, the yen commercial paper market was established, and markets in other currencies, such as sterling, grew respectably. With the increasing maturity of the ECP market in dollars, a range of interesting opportunities has been opened up for both borrowers and lenders in the world's short-term paper markets.

Yields : US v Euro-commercial paper ($)



Source: Merrill Lynch

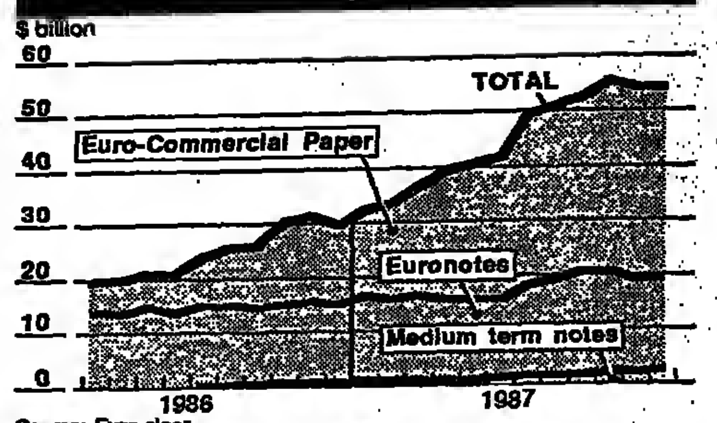
Euro CP: an overview

Confidence is growing though snags remain

BY ANY standards, Eurocommercial paper's rapid growth into a $50bn market is impressive. It has more than doubled in size in a year and half – a period in which the dollar has been an unpopular currency for European investors.

Moreover, it appears to have developed a stronger investor base willing to buy and hold. Arguments over whether the paper should form a liquid trading market have been decisively won by those believing in firm placement. At the same time, issuers have become more confident about the placing power of dealers: witness Sweden's switch from a tender panel to a dealership system.

Monthly estimates of outstanding Europaper



Source: Euro-clear

Clearly, the market still has problems. Some borrowers, notably the influential General Motors Acceptance Corporation, have become disenchanted with its interest costs. The ECP market's continued tie to London interbank rates threatens its long-term future.

A second problem is that, despite some advances, the quality of statistics published on the market remains inadequate. Even allowing for a good deal of hyperbole on the part of the dealers, the published data do not appear to reflect market events. For example, a widely reported surge in issuing volume after the October stock market crash has not been reflected in the figures. Either they are wrong, or they do not sufficiently explain what is actually happening.

Thirdly, the small differentiation between yields obtained by the best and worst credits in the market suggests that there is not sufficient distinction between credit risks. No doubt a Penn Central-type accident will sort this out one day. There is probably not yet sufficient belief in ratings, though these have been given a boost in the credit-conscious atmosphere of the post-crash markets. "You can no longer judge a book by its cover," says Warren Spar of Shearson Lehman Brothers International.

Despite all this, the ECP market is attractive to a wide range of borrowers, for a variety of reasons. Mr David Wesselink, chief financial officer of Household Financial Services, an Illinois-based finance company, is probably typical of many thoughtful treasurers of companies with global aims when he says that the goal of his programme is to get the company's name better known among European investors.

Mr Wesselink says that he cannot be indifferent to price, and that the long-term aim to get the lowest possible costs, but that "we take a broad view of our whole involvement rather than seek the last basis point in each market."

Other borrowers, like Sweden, can borrow at extremely attractive rates – during the days after the crash, Swedish paper sold at 32 basis points below the London Interbank Bid Rate (Libid). Investors in sovereign paper tend to see it as an alternative to US Treasury bills, and so look at the interest costs against bills instead of interbank rates.

Others are lesa satisfied, though GMAC's sheer clout probably makes it a special case. There are clearly many borrowers for whom ECP has proved a satisfactory instrument.

Attempts to wean the corporate ECP market away from interbank rates, which are obviously heavily influenced by market perceptions of banks' credit quality, have so far proved unsuccessful. The Bank of England now publishes daily corporate ECP rates, but these have tracked Libid almost exactly and so have not yet developed into anything that could be used as an independent benchmark such as the US market has.

Published statistics remain inadequate

In the absence of a corporate ECP benchmark independent of interbank rates, there is a danger in the longer run that a rise in dollar interest rates could widen the gap between US domestic and Euro commercial paper rates and make ECP an extremely unattractive vehicle for borrowers.

Much of the ECP market's recent growth has been due to packages which tie in a currency swap or spot-and-forward foreign exchange contract to provide maximum flexibility to both borrower and investor. Though there are commercial paper markets now in several currencies other than dollars, they have not yet shown the growth of dollar ECP. Most of the time, it remains cheaper for borrowers to issue in dollars and do an accompanying currency transaction.

The scope for expanding into other currencies must be enormous, however. It is perfectly possible that windows could appear, for example, in Euroyen so that paper could be issued and swaps done even though the borrower's need is actually in dollars.

Ms Rosemary Carawan, of Swiss Bank Corporation Investment Banking, believes that the development of non-dollar ECP is "the single most exciting thing" ahead for the market. Mr Len Harwood, of Citicorp Investment Bank, who is already forecasting a doubling in the size of the market to over $100bn this year, believes that if the major swappable currencies, such as Deutsche Marks and Swiss francs, were available for ECP issues, the market could triple in size within a year.

As in many markets, the greatest unknown quantity is the Japanese. A few Japanese companies have ECP programmes, and securities houses are just beginning to tap what they see as potentially big demand for ECP among their traditionally conservative Japanese investor base. Both domestic and Euroyen commercial paper has been introduced, but it is too early to draw any conclusions about those markets yet.

Market participants are puzzled by the Federal Reserve Bank of New York's assertion that, on average, ECP is held for only half its maturity. Some dealers say this may be true of sovereign paper which, being Treasury bill-related, is more likely to be seen as a liquid money market instrument. Paper sold through tender panels may also have a tendency to be less firmly placed.

But the major dealers put hands on hearts in saying that less than 5 per cent of the commercial paper they sell comes back into the market before maturity, and that the percentage is falling. Kevin Regan, of Merrill Lynch, believes the Fed figures are distorted, because paper is often transferred between clearing system accounts during its life without its ownership changing.

Alexander Nicoll

COMMERCIAL PAPER 3

Euro CP: **David Waller** discusses the issuers

Three-way benefits

GENERAL MOTORS Acceptance Corporation is the world's largest issuer in commercial paper markets. With outstanding issues amounting to some $40bn, its borrowings by this method are roughly equivalent to those of all the 600 or so borrowers on the Eurocommercial paper market.

Although small when compared with the US market – where outstandings amount to some $350bn – the Eurocommercial paper market has achieved a degree of maturity. This is reflected in the spread of issuers who have chosen to avail themselves of ECP.

The market boasts representatives of the three main categories of borrower: sovereign states, corporations and banks. Issuers from each of these categories use ECP for different reasons, paying different rates of interest and attracting different categories of investor.

■ According to Merrill Lynch, there are approximately 40 sovereign or quasi-sovereign issuers, ranging from the kingdoms of Sweden and Denmark to government agencies such as the Australian Wheat Board.

■ There are some 375 corporate issuers, including large US companies and utilities who use ECP as an extension to their US commercial paper programmes, and Europe-based multinationals such as British Petroleum, Norsk Hydro or BASF.

■ The remaining issuers are the banks and other financial institutions, numbering perhaps 200, who use ECP as an alternative to traditional interbank funding methods.

Countries tend to use ECP for balance of payments reasons, and are able to achieve fine rates of interest – Sweden, for example, can borrow at as much as 20 basis points below the London Interbank Bid Rate for Eurodollar deposits (Libid). Investors tend to be central banks who treat such issues as surrogate Treasury bills.

Naturally, companies have many reasons for using ECP rather than other methods of satisfying short-term borrowing requirements – such as US commercial paper or straightforward bank credit.

Rates payable will inevitably be at the other end of the spectrum from those available to sovereign borrowers, reflecting the ratings accorded to corporations by the two main US credit rating agencies. Paper from a company such as Rupert Murdoch's News Corporation could pay as much as 25 basis points above the London Interbank Offer Rate (Libor) – and investors in such instruments would tend to be banks motivated primarily by the relatively high yield.

For historical reasons, ECP differs from the giant US commercial paper market in two fundamental ways. Despite the Bank of England's initiative in introducing a benchmark of representative daily rates last August, pricing for ECP issues tends to be determined by reference to interest rates paid or offered by banks.

In the US, the CP market is long enough established, and corporate cash management so sophisticated that the rate is more likely to be fixed by looking at what other issuers are achieving. This is not necessarily tied to what the banks are offering, as corporations are less likely to turn to the banks for their working capital requirements than their European counterparts, and thus the rates available on CP or from the banks do not directly compete.

The other crucial difference is that ECP issues tend to have longer maturities than US CP issues. In the US, the average maturity of the total portfolio is estimated to be under 30 days, whereas in Europe there is a much greater spread, with 90- or 180-day maturities being more common. The US CP market is a giant but shallow pool of liquidity into which corporations may dip at will; in Europe, the market is smaller but deeper.

Inevitably, discrepancies arise between the terms available to issuers on either side of the Atlantic: these tend to be exploited by the bigger US corporates as they spot windows of opportunity. But GMAC, for one, is unhappy.

"The terms that we are able to agree in the US – and would like to achieve in Europe – are not attractive to European investors," says Mr Peter Clout, vice-president in charge of borrowings. "We do not offer rates priced off Libor and Libid. Whilst we are keen to diversify our investor base, we can do so in Europe only at a premium – a premium we are not prepared to pay."

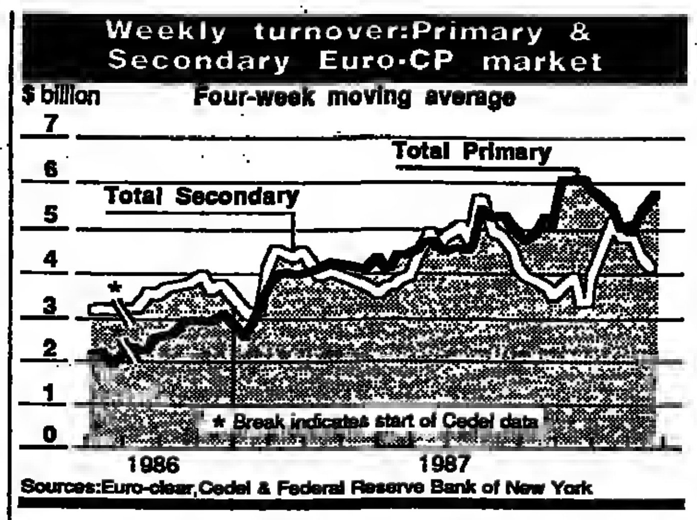
As a result, GMAC's ECP outstandings at the beginning of February amounted to less than $150m, compared with a peak of $1bn in September 1986.

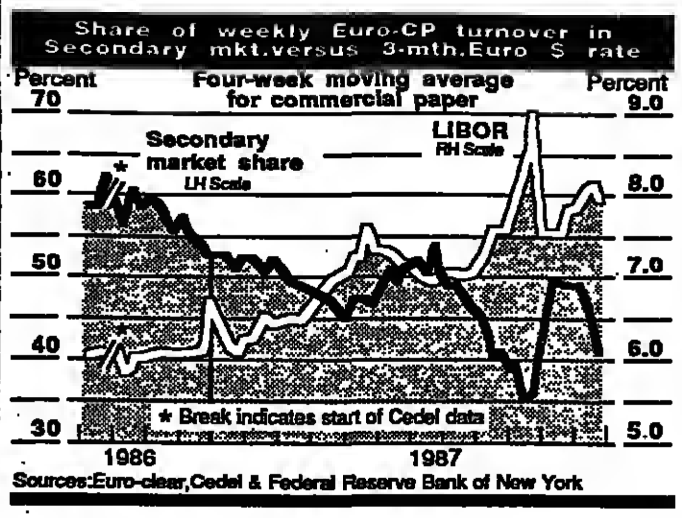
Chrysler Financial Corporation, another large Detroit-based mntor receivables company, tells a different story. "We are absointeiy delighted with our ECP programme," maintains Marilyn Cooper, vice-presldent of financial sales. "We have quite a spread between our US and European issues. ECP nicely complements our domestic commercial paper programme."

The rates available to Chrysler in Europe do not differ from those achieved in the US. The company tends to tap the ECP market on particularly heavy funding days so that rates in the US do not come under pressure as a result of exceedingly heavy demand. As a result consistent pricing can be achieved acrosa the board. Chrysler Financial's ECP's outstandings amount to $411m at present, largely in issues of longer maturity than those in the US.

For GMAC, it is a reflection of the ECP market's immaturity that it supports different rate structores than the US. "In time, when there is a truly global market, location will not influence our decision as to where tn launch a CP programme," says Mr Clout."

Such globalisation may be a long way off, but the rapid growth of the ECP market, and its attractiveness to all types of lssoers, suggests that convergence between the US and Europe is at least underway.





Euro CP: the dealers

Profit for the few

MOST EUROMARKET instruments begin by being very profitable for the houses that invent them, and then the margins are progressively pared and finally eliminated by competition. For dealers battling it nut in the Eurocommercial paper market, the reverse is the case.

As the top half dozen or so dealers consolidate themselves as the leaders, after two years of extranrdinary competition, they are also laying the basis, with a gradually evniving fee structure similar to that in the US, for the making of respectable profits.

Commercial paper is a lnw margin, labour intensive business. The successful players turn over substantial volume through a large core nf active borrowers on the one hand and a large array of investor clients on the other. Most nf them have about 20 people who are more or less dedicated to the product. Every day, they need to talk to each of their active clients on both sides of the market.

With almost all agreed these days that it is not a trading market, there is not significant money to be made out of positioning paper – though New Ynrk Federal Reserve Bank data suggest that this still does go nn, with more active secondary market trading as interest rates drop. There are still many fringe players among the 40-odd members nf the Euronote Association.

Instead, the mnney is in the small commissions which are develnping an accepted structure. Houses which have strong investor bases do not have to devote a large amount nf capital to the business, but even so the returns are not large.

"Nnbody is making a lnt nf money nut nf ECP," says Rosemary Carawan of Swiss Bank Corporatinn Investment banking. "I don't think that anybody is making any money other than the top twn or three and even they nnly earn a few million dollars between them."

The biggest unknown is the Japanese

Citicorp and SBCI are the clear leaders nf the field, with the former hniding the most dealerships nverall but the latter gaining the most in 1987. Also ranking high are Merrill Lynch, J.P.Mnrgan, Shearson Lehman and S.G.Warburg. Important are Bankers Trust, Chase Manhattan, Credit Suisse First Boston, First Chicago and Mnrgan Stanley, with Barclays de Zoete Wedd and Manufacturers Hanover beginning to make some inroads in 1987.

There are wide gaps between these players, hnwever. Citicorp's total number of dealerships at 147 by the end of 1987 was almost double the 74 of Morgan Stanley, which came eighth in the International Financing Review rankings. SBCI had 142 dealerships, of which mnre than half at 76 were obtained last year, double the 38 won by Chase, which came seventh in 1987.

In terms nf actual outstandings, the top six probably have 60 to 70 per cent nf the market.

After the experiences nf 1987, the clear requirement for all dealers is to demonstrate commitment to the market – a difficult thing to do if you are obvioueiy not making any money out nf it. Few of Salomon Brothers' clients coold have predicted that it would have completely withdrawn frnm the market overnight as it did last year.

Many houses, especially commercial banks wanting to preserve cnrporate relationships, feel it is a business they should be in, especially as it provides daily contact with the companies. The biggest unknown, however, is the strategy of Japanese houses which have so far nnt participated in the market. Daiwa Securlties nnw has a team which aims to be a serious contender. Given the strength nf the Japanese investor base, few would dismiss their aspirations nutright.

Alexander Nicoll

Euro CP: the investors

Wide appeal

WITH THE controversy over whether the Eurocommercial paper (ECP) market would be driven by investors or traders now settled in favour nf the placement camp, finding friendly investors is the principal preoccupation of the major dealers.

The early days of ECP, characterised by mandate-hungry banks buying up large lines of paper for later dumping in the professional after-market, have given way to the realisation that serious contenders have to know end-investors.

Unlike the US market, where money market funds are easily the most important buyers of CP, ECP bas built up a heterogeneous following, with different quality paper going to different types nf investor. It remains largely wholesale.

Unlike the Eurobond market, retail investors are untempted by minimum denominations of the order of $500,000 and though some programmes – notably, one for Canada's Export Development Corporation, where denominations were trimmed to $10,000 – have beea aimed at a Swiss retail audience, the archetypal Belgian dentist is not really a factor at all. The big buyers are central banks, cnmmercial banks, corporate treasurers and institutional investors.

Central banks, whose principal investmeot alternative is US Treasury bills, look for liquidity and unquestinnabie credits, buying up to four-fifths nf all sovereign, quasi-sovereign and AAA-rated paper. At times when ECP offers a yield pick-up over T-bills, they can bid yields down to 20 and 30 basis points through Libid.

Heavy buyers in the halcyon days of wide spreads over Libor, the commercial banks are now retreating as even poor qoality yields edge cloeer to Libor, their own benchmark cost of funds. But they are willing to perform complex credit analyses nf nnrated borrowers, vlewing ECP as a surrogate banking asset or a tool, along with CDs and T-bills, of treasury management.

Banks are also tending to shun CDs now, preferring to buy corporate risk in the ECP market instead. S.G. Warburg sells nearly three-quarters of its unrated, high yield paper to banks and none at all to investment managers or ceotral banks.

But corporate treasurers are the market's principal find. Initially tempted into ECP via the CD market, the decline of bank credits has accelerated the trend. The industrial majors now prefer to buy nther corporate risk directly, relegating bankers to the rnle of agent rather than principal.

Innately conservative, they tend to ignnre supra-Libor yields and buy rated paper nr well-known industrial names yielding around Limean, though they do pick up unrated corporate debt where they are familiar with the issuer's business. Since most tend not to be investing dollars but their natural currency, a lot of ECP is sold to them on a currency-hedged basis: dollar paper plus a spot and forward exchange.

"About 40 per cent of our business is done on that basis," claims Rosemary Carawan at SBCI, the leading house in corporate placement.

While corporates tend not to manage their investments actively, being more interested in minimal risk than liquidity or overall portfolio performance, institutional investors do churn their portfolios, selling paper prior to maturity to pick up yield. And whereas corporate liquidity tends to be cyclical, the institutions are always buying. Driven more by price than credit considerations, they dislike low-yield sovereign paper and take three- to six-month views on higher yield corporate paper.

The ECP market has now attracted offshnre, Caribbean, Far Eastern, Middle Eastern and European Investment hnuses, insurance companies, pension funds and trust and managed funds, many of whom run dollar porfnlios from which they can access nther currencies via the swaps markets.

S.G. Warburg, which places half its ECP abroad, has been conspicuously successful in Tokyn, where the ministry nf finance nnw allows Japanese institutions to buy any paper rated A2/P2 or better. Long ignored in the Euromarkets, ratings are at last beginning to intrigue ECP investors, too, with a yield differential between rated and unrated borrowers of similar status now discernible and widening.

Criticism nf Mnody's and Standard & Poor's, for applying US standards to European credits, is abating, and a third agency – EuroRatings, a joint venture between Fitch and Compagnie Belge d'Assurance – now rates 107 borrowers.

Most dealers now advise a rating (costing about $25,000), figuring that it can save at least ⅛ in yield. In fact, Hendrik Kranenburg, at Standard & Poor's in London, is surprised to find that an office set op to service the Eurobond market actually spends more time-rating ECP. With half the market still unrated, he detects an acceleration in applications since the crash. They shoold become the norm, if nnly because of investor demand.

Dominic Hobson

Euro CP: the Euronote Association is a first attempt at regulation

Watchful on four fronts

THE EURONOTE Associatiou was formally established in April 1986 by five key players in the Euronote and Euro-commercial paper markets.

Repreaenting the first attempt to regulate the burgeoning markets, the association has not suffered because it lacks statutory authority. It has attracted a membership of over 40 banks, all of which must subscribe to a comprehensive set of rules designed to protect the end-investor as well as to enhance the efficiency of the market.

Libor has many advantages when different banks quote different rates

Following on from the work of sub-committees set up in December 1986, the association has taken important steps in four key areas:

- Documentation in the origination of new deals has been standardiaed. Borrowers and dealers believe that their costs have been lowered as a result.

- A comprehensive list of deals in the market has been compiled. The Euronote Booklet is published quarterly and shows the status of the dealer – whether he is primary dealer, market maker and so on – and is distributed to all those engaged in the market.

- A third committee has been working towards establishing uniform clearance and settlement policies.

- In conjunction with the Bank of England, the Association has co-ordinated a method of compiling statistical data to record current outstandings in the market.

Following further discussions between the association and the Bank, the ECP market got its first independent benchmark. As from early August last year, the Bank publish a selection of daily rates available for the paper.

Every afternoon at 4.30 pm, on Reoter and Telerate screens, the Bank publishes investor returns on one, two, three and six month paper issued by companies rated either A1 or P1 by the two main US rating agencies.

The Bank approaches a panel of seven dealers each day for rates at 11.30 am, publishing a median rate for each maturity, based on actual deals in the primary market. The quotations are ranked and the median deal is chosen as representative.

The introduction of the benchmark was significant in that it offered the possibility of freeing the ECP market from its shackles to the inter-bank money markets. For historical reasons, the rates available to borrowers in Europe have traditionally been determined by reference to London Interbank Offered Rate (Libor).

This contrasts sharply with the US, where rates available in the world's largest CP markets are largely independent of bank rates, and issuea are priced with reference to an index published by the Federal Reserve Board.

Although the discrepancy between the ECP pricing mechanism and US practice can create arbitrage opportunities, it is usually perceived as a hindrance to the true globalisation of CP markets.

For the ECP market, Libor has many advantages. Different banks quote different rates, and spreads between bid and offer vary widely; furthermore, the rate cited can reflect the credit-worthiness of the bank concerned, which is of little relevance to the corporate issuer.

According to Mr Stuart Clenaghan, executive director in charge of money markets at Shearson Lehmann, "more and more people are taking notice". Yet he concedes that the benchmark is consulted more out of historical curiosity than as a pricing tool.

David Waller

Asset-backed CP: the trend to securitisation has not left the market untouched, especially in the US

Europe slower to lighten balance sheets

THE CREATION of securities out of financial assets, such as mortgage loans and credit card receivables, has been an important part of the changing face of financial markets in the 1980s.

It is in the United States, of course, that the process of securitisation of assets has gone the farthest. More than one-fifth of the mortgages in the US have been securitised, while the creation of securities from credit card receivables and car financings is also now commonplace. The development of asset-backed commercial paper there is clearly part of this trend.

There are a multitude of reasons why the process has developed more quickly in the US. Part of the spur has certainly been the rise – more marked in the US than abroad – in the costs of financial intermediation, caused both by tougher capital requirements and by increased concern about bank risk.

This has encouraged a desire among lenders to shrink their balance sheets, which can be accomplished by transferring assets to a vehicle company designed to issue securities, and has also often accomplished a reduction in funding costs.

The process in the Euromarkets has been much slower: there has been less of an imperative for banks and other financial institutions to lighten their balance sheets. Apart from those deals involving US issuers in Europe, most deals have been associated with the turning of UK mortgage assets into floating rate notes for sale to investors.

In the Eurocommercial paper and Euronote markets, only a handful of securitised issues have emerged. One was for Columbus Capital Corporation, a company established by Merrill Lynch, Shearson Lehman Brothers and Citicorp.

It was created to issue commercial paper and make loans to a specified list of borrowers which probably would not be able to gain direct access to the commercial paper markets. A guarantee covers the first 25 per cent of losses. The company was given the top A1+ rating by Standard and Poor's and a P1 by Moody's Investors Service.

Yet, while the company has issued in the US, it has had little, if any, paper outstanding in the ECP market.

Another structure was created in the form of a note issuance facility for Reliance Insurance Company of the US. The receivables being packaged in this case were repayments of borrowings used by US companies to pay insurance premiums. Because of a low loss expectation on the receivables and a number of other guarantees, the facility was rated A1 by Standard and Poor's.

Charles Stephens: "Some programmes could be very large"

But the collapse of stock markets in October posed a question-mark for the further development of these types of securities. It seemed that in the post-crash environment investors were looking for two things, safety and simplicity, and simple these instruments were not. Would securitisation go into reverse?

The indication from the US suggests that the answer to that question is no. The process does seem to have slowed, but the search for new types of receivables to convert into securities has continued. The crash has not extinguished the desire of financial institutions to reduce the size of their balance sheets, and US investors have had some time now to get used to the concept. Of course, a top-rated financing vehicle is still not viewed by US investors as the equivalent of a top rated corporation, and therefore continues to pay more to issue paper.

In Europe, investors have not yet gone through that education process, but the developments since the crash have not altered the firm expectations of several banks that a number of asset-backed ECP programmes will be in place and active by the year end.

The crash has intensified demand for high-rated ECP. In contrast to the market's early days, it has often been borrowers rather than investors that have placed the limitation on issuance of top quality paper in recent months. Provided that an asset-backed commercial paper programme can attract a top rating, a number of bankers believe the concept will get off the ground in Europe.

Mr Charles Stephens, managing director with Chase Investment Bank, says: "Current lenders for residential mortgages, including building societies and insurance companies, all are exploring ways of getting mortgages off balance sheet. There is the flexibility in ECP for the issuance of a large amount of paper in this way in 1988, and some of the programmes could be very large."

Even though such companies have sterling balance sheets, the possibility of issuing asset-backed commercial paper in sterling is limited by two factors. Such issuance vehicles would be ineligible under current Bank of England rules to use the sterling CP market and, in any case, the size of the sterling market is probably too small to take useful volumes of paper.

Using the ECP market would require the dollar proceeds to be swapped back into sterling. Since the average life of a UK mortgage is between six and eight years and the average maturity of ECP something like 70 days, there would also need to be a standby credit facility in case the paper is not rolled over.

The whole package could thus prove to be more profitable for the arrangers than the traditional ECP programme. But it is an area where commercial banks, rather than securities firms, appear to be showing the most interest, since they believe they are best equipped to provide all elements of that package.

The process of financing UK mortgages using the ECP market is much further advanced than for other types of lending, although there is no physical reason why receivables from credit cards should not be financed in the market.

However, the securitisation of bank assets such as these has drawn the attention of the Bank of England, which is keen to ensure that, if any risks are left with the bank selling the assets, they are recognised in its capital.

A consultative paper issued by the Bank in December seems to interpret the question more strictly than the US Federal Reserve, for example. The Bank has been taking comments from commercial banks on the paper, and some are certain to criticise it for being over-restrictive.

Clearly, until the Bank's final deliberations are published, there is little prospect for the securitisation of any UK bank assets.

Stephen Fidler

The Euronote market

Less fashionable, still useful

HOWEVER BLURRED the changeover in the last few years, it is now clear that Eurocommercial paper has superseded the Euronote as the method of issuing short-term notes preferred by most borrowers.

Euro-clear figures show that while the amount of Euronotes outstanding increased by about 22 per cent in the 18-month period to September 1987, when it stood at $18.27bn, Eurocommercial paper outstanding rocketed to $33.6bn from a mere $4.5bn in March the previous year.

Yet the Euronote, a term used to identify short-term paper in underwritten form, should not now merely be written off as a primitive stage in the evolution of Eurocommercial paper. On the contrary, bankers still see it as having a role in two key respects.

First, the tender panel mechanism, under which a group of banks combines to bid for paper issued under note issuance facilities, enables new borrowers to identify those banks which are likely to be the most diligent dealers in their commercial paper. Second, the mechanism is still a valuable tool for lesser-quality borrowers.

The main reason from the borrowers' point of view for the decline of the tender panel as a note-issuing mechanism is that it is inefficient, since it involves the borrower giving notice in advance of intent to issue paper, which then has to be circulated among the panel. And if the group comprises any weak banks with little placing power, it can distort the secondary market as paper, once issued, is dumped by bidders which cannot find other buyers.

It is an awkward method from the banks' point of view since it means, as one banker put it, "we were constantly busting a gut to bid for paper without any means of knowing whether we would get it or not." Concerns about restricting overheads has led an increasing number of panel members tacitly to opt out of programmes in which they are involved.

Eurocommercial paper, by contrast, is administratively simple both for borrowers and banks, since it involves appointing a much smaller group of specialist dealers through which all issues are channelled. The dealers are far more likely to be committed to placing the paper, so issuance should be much more in tune with investor demand.

So an increasing number of borrowers have dropped using panels for note issuance, although the process has often been subtle. For instance, documentation has sometimes been adapted so that the borrower has the right to access the tender panel, and also deal directly with banks.

Last year, an increasing number of British companies put in place multiple option facilities to replace existing bank lines with cheaper funding off banks' balance sheets.

Typically, these facilities contain an underwritten credit which may act as a backstop for commercial paper as well as general funding; and the ability to seek bids for advances and acceptances through a tender panel, of which members need not be underwriters of the credit.

"There was a trend last year for companies to put multiple-option facilities in place, but then to restrict panellists to bidding for advances and acceptances," says Mr Keith Glover, head of loan syndications at National Westminster Bank.

However, a number of borrowers have made use of tender panel facilities to establish which banks are most likely to be able to place their commercial paper, and the panel has continuing attractions for newer borrowers in this respect.

For instance, back in 1984, Sweden set up a Euronote facility with a panel that was originally 60-strong. The panellists were progressively whittled down as Sweden got the measure of who were the most committed members. Finally, last November, it appointed just five dealers to handle the Eurocommercial paper programme that emerged after it had modified the documentation of the existing facility.

The other continuing attraction of note issuance facilities is that they are a much safer route for lesser quality names: where Eurocommercial paper is issued without backstop facilities, the borrower is highly exposed to a change in investors' views of its credit quality.

With a Euronote facility, on the other hand, he at least has the assurance of an underlying commitment from the underwriting banks.

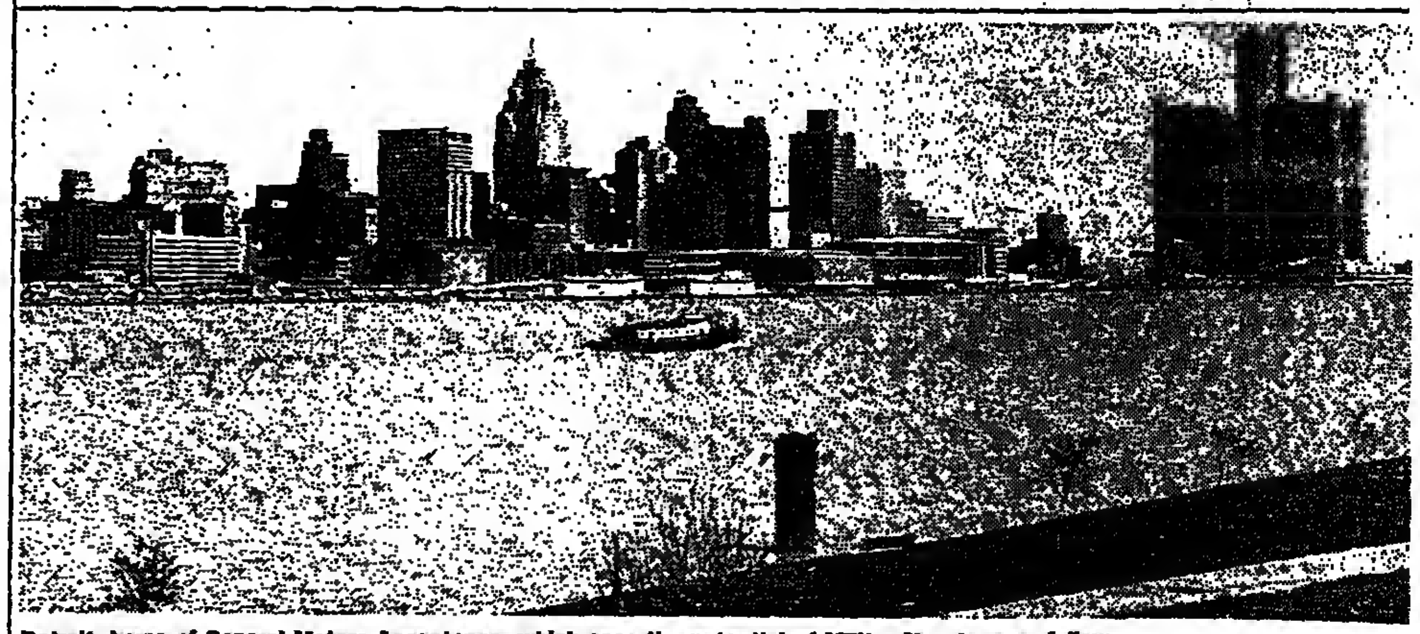
Increased nervousness among investors about credit quality, following last October's stock market crash, could boost the attractions of Euronotes from this point of view. But bankers disagree about whether the crash has had this effect.

For instance, Mr Tony Rhodes, of Bank of America, says that, overriding the credit concern issue, the crash had a beneficial effect on the commercial paper market, since it induced investors to shorten the maturities of their portfolios.

On the other hand, Mr Warren Spar, of Shearson Lehman Brothers International, feels that unrated borrowers will find it harder to tap the Eurocommercial paper market. "Investors have definitely been leaning quite heavily on ratings," he says.

Mr Peter Coates, treasurer of C.H. Beazer, takes the view that though large numbers of UK companies now have access to the commercial paper market, they are often precluded from selling Eurocommercial paper if they are not rated, and not household names on the Continent. For them, underwritten facilities may continue to be the most appropriate method of note issuance.

Clare Pearson



Detroit: home of General Motors Acceptance, which sees the potential of MTNs. Chrysler may follow

Medium-term notes

Higher risk, greater reward

MEDIUM-TERM notes have been thought of, for several years, as the way of the future for the Euromarkets. Inevitably, they are taking a long time to establish themselves, but bankers remain confident that they could eventually become a very large and profitable market.

MTNs may be seen as an outgrowth both of the commercial paper and the boud marksts. They are continuously offered through dealers, like commercial paper, but for longer maturities. If it works properly, issuers post rates constantly, and investors have the chance to pick any maturity and interest rate structure, depending on their needs. Flexibility is the key.

Though the disparate maturities mean that there is unlikely to be any real trading of MTNa, and though each piece of paper has in theory been designed to meet the investor's requirements, liquidity is obviously important. It means that the dealers must have the capability to buy back the notes at fair prices should investors want to sell them.

That, in turn, means that the dealers must have very strong investor bases and must also be ready to devote a fair amount of capital to the business. By the same token, the increased risk means that the rewards are greoter than in commercial paper: commissiona are already fairly standardised and range from ⅛ per cent at the shorter end up to ⅝ for five years, eveo though the paper should ideally never be on the dealer's books.

There are several reasons why development has been slow. Dollar-denominated securities have not been popular. Perhaps more importantly, investors in Europe do not yet have the sophisticated portfolio management techniques which have allowed the MTN market to grow to some $50bn in the US. US institutions employ matched-funding techniques tying ths income stream on their assets to their outgoings, for exampls to pensionera. They therefore have a need for paper of maturity specific to them.

In Europe, as Keith Elliott of S.G.Warburg observes, "investors are uot used to getting what they want." Whether thsy will develop matched-funding to any extent must remain in doubt, but it seems a fair bet they will develop demand for greater flsxibility than is afforded by the Eurobond market.

In particular, MTNs fill a gap in the maturities of new issues, in the nine month to three-year range. Thla is appealiog not only for investors but also for borrowers, especially finance companies with fairly short-maturing assets.

Attractive pricing has enabled General Motors Acceptance Corporation, which will not borrow in the Euromarkets unless it can get a better rate than on the comparable US instrument, to build up more than $1.1bn in Euro-MTN outstandings, making it by far the largest issuer and providing an important seal of approval. It sees greater poteotial in the MTN than the commercial paper market in Europe.

Although many borrowers have set up the ability to issue MTNs, few have actually done ao. Pepsico was the sarliest large issuor. Spain has about $250m outstanding. Other issuers such as Nationale Nederlanden, Nordic Investment Bank, and the Federal National Mortgage Associatiou have dabbled. Overall, the total market is probably no larger than $2.5bn. But there are many programmes in the wings, including one from Household Finance and another from Chrysler Financial, which is among the largest Eurocommercial paper issuers.

A variation on MTNa has beeu developed by Merrill Lynch and not copied by any other house. Merrill insists, however, that its multi-tranche tap programmes have been a success and have provided consistently cheap funding for the borrowers.

Instead of issuing in any form, issuers set a tranchs with a specific coupon and a set maximum size. The aim is to provide greater liquidity, since investors know that there will be a pool of paper fungible with what they hold. There is also a firm margin to Treasuriss or gilts. Merrill acknowledges that flexibility ia sacrificed but believes its structure has a role alongside regular MTNs, in which it also participates.

Mr Elliott, of Warburg, believes that the liquidity of the MTN msrket will be ensured by necessary self-discipline on the part of the dealers. If a house fails to offer a fair repurchase price to an investor wishing to sell, that investor will offer the same piece of paper to another house eager for the business. The investor probably may not want to return to the first house for the next purchase.

Alexander Nicoll

Clearing systems: there are four serving the Euro CP market

How the Continentals beat London on its home ground

SETTLEMENT AND clearing are the nuts and bolts of the burgeoning Eurocommercial paper (ECP) market.

Few would argue that it is glamorous work. "It simply means matching buys and sells, moving money in one direction and securities in another," explains Trevor Thomson, manager of the First Chicago Clearing Centre (FCCC) in London.

Yet, in the early days of the market, the settlement and clearing functions – essentially paying for securities, holding them on behalf of investors and recording transfers between them – were fiercely contested by four independent clearing systems.

FCCC, the leading clearer in the London certificate of deposit (CD) market since 1976, hoped to build on this dominance in the nascent ECP market. Chase Manhattan, another bank active in London money market clearance, was also a contender.

But both now agree that the two continental systems set up to serve the off-shore Eurobond market – Cedel in Luxembourg, and Euro-clear in Brussels – have emerged as clear winners. By its own estimate, Euro-clear alone now controls over a third of the primary market in ECP and two thirds of all ECP transactions, building on its strong 2,000-plus client list in the Eurodollar bond market.

The outcome was part accident, part technological. The bankers who designed the prototypes for the ECP market – Revolving Underwriting Facilities (Rufs) and Euronotes – were frequently drawn from established Eurobond departments, and naturally gravitated towards clearing and settlement systems they knew and understood.

But the London systems, rooted in the physical delivery of securities, were unable to compete in terms of cost, efficiency, reliability and security with systems based on book entry transfer (BETs), whereby the securities remain in London bank vaults and transfers are recorded electronically in Brussels or Luxembourg.

In essence, ECP issuance, custody and payment is located in London, but clearing in Europe. Though both London houses retain some residual clearing business in the ECP market, their principal role now is to act as depositories for the continental clearers. They formally recognised this switch to Europe in 1986.

In July that year, Euro-clear appointed FCCC as depository for its ECP business; Cedel announced similar links with Chase Manhattan (and Citibank) in London; and an electronic "bridge" was built between Euro-clear and Cedel to facilitate transfers between the two clearing systems. The only missing link now is a periodic requirement for physical delivery between Chase and FCCC.

In essence, ECP issuance, custody and payment is located in London, but clearing takes place in Europe

With most paper firmly placed at the outset and little secondary market activity, many participants expect ECP to become an entirely paperless market by tha 1990s. Euro-clear cites weekly primary market turnover of $7.37bn, against turnover of only $3.96bn – and falling – in seasoned paper.

As Euro-clear and Cedel strengthen their grip, the paper chase can be expected to tail off, but one upshot of the tussle between the London and continental clearing houses was a proliferation of instruments. Most ECP is still security printed in definitive, bearer form – a must when notes were physically delivered to banks around the city by uniformed messengers, but now regarded by settlement professionals as expensive, insecure and hard to automate.

"We all know stories of messengers wandering around the city and leaving paper at the bookies or in their back pocket and going off sick for three days," recalls David Carter, a vice-president at Cedel in London. They persist only because a significant coterie of investors – in some cases reinforced by in-house rules – still regard definitives as essential evidence of good title in cases of default, or where notes are used as collateral.

In fact, most certificates never leave the bank vaults. Euro-clear calculates that less than 0.5 per cent of the $33bn of outstandings it holds was physically delivered. In most issues, a single large denomination global note, owned by lots of investors, is held by a depository bank on behalf of the two clearing systems, with transfers between investors recorded by BETs. Definitives are delivered only where a client lacks a Euro-clear or Cedel account.

Because global notes attract UK stamp duty, they were not an option that Chase or FCCC could offer. FCCC developed instead a universal note, which aims to combine the benefits of both definitives and globals. Like definitives, a universal note is a bearer security, but it is not security printed and cannot be delivered outside the First Chicago bank vaults.

Where physical delivery is required, a definitive replaces it, though the requirement to do so has been substantially reduced following FCCC's appointment as a depository to Euro-clear. Universal notes cannot be cleared in Cedel.

A typical transaction now runs as follows.

An issuer calls his dealer for rates. If they suit, he instructs his issuing agent to give Euro-clear and Cedel details of the new paper. They allot a security number, and the paper is registered in the issuing agent's own account, from whence it is credited to the accounts of the dealers who bought the paper, in each case for delivery against payment, or the simultaneous exchange of cash for securities.

The dealers subseqnently transfer paper – again for delivery against payment – to the accounts of the end-investors. Definitive certificates remain in a bank vault in London, for physical delivery only to investors without Euro-clear or Cedel accounts, where they simply own part of a global note.

The only real competition now is for the issuing and paying agency business – issuing notes at the outset and paying them back at maturity – since this is the only part of an ECP transaction still awarded on price alone. Banking relationships count for less than a keen price and a system able to handle heavy volumes. It is dominated by First Chicago, Chase, Citicorp and MGT.

Settlement has proved a more contentious area than clearing. Unlike the United States, where CP is issued, cleared and paid for on the same day, ECP is settled within two days: deals struck on Monday are paid for on Wednesday.

This is handy for investors switching between the London money markets and ECP, but lands issuers toying between an issue in the Euromarkets and the US domestic market with a two-day interest rate risk. Recognising this, some clearers now offer same-day settlement. FCCC, which has settled CDs on the same day since 1981, extended the service to ECP in 1985, though paper has to remain inside the First Chicago system throughout. Anticipating a general move in the market towards same-day settlement, Cedel followed suit early last year.

"Cedel anticipated that arbitrage might develop between the Euro and US CP markets," argues Carter; but his competitors disparage a system that requires instructions to be submitted to the system first thing in the morning. And until switching between the US and Euro markets becomes habitual, there will be little pressure for same-day settlement, which is unsurprising in a market whose principal alternative is still CDs.

Dominic Hobson

Sterling CP

A healthy niche operation

WHEN THE Bank of England said it would allow sterling commercial paper for the first time in 1986, there were plenty of scoffers ready to characterise it as the market that nobody – borrowers or investors – needed.

But for all the doubts that attended its inception, the sterling CP market has achieved steady growth since the first programmes were arranged in May 1986.

On the borrowers' side, a landmark was reached at the end of last year, by which time 50 out of the constituent companies of the FTSE-100 index had arranged programmes. Meanwhile, by the end of last November, it was four times as big as it had been at the end of 1986, with total outstandings reaching £2.34bn.

During the same period, it had proved its ability to attract non-bank investors. At the end of November, only £715m out of total outstandings was held by the monetary sector.

Nevertheless, sterling CP issuance remains tiny compared with the bankers' acceptances market. And the scope for further growth at least under current regulatory and economic conditions is limited: Mr Keith Elliott, a director of S.G. Warburg, says it is unlikely to exceed £6bn in size.

Meanwhile, the number of players in the market is widely expected to contract. Of the 20 or so banks that claim to be dealers in commercial paper at the moment, only about five are expected to survive, with the lion's share of the business becoming increasingly concentrated in the hands of the top three.

At the time of its launch, sceptics pointed out that borrowers already had a number of perfectly adequate short-term financing options. In particular, they were able to obtain highly attractive rates in the acceptance market, which was effectively subsidised by the Government.

This was because, prior to its abandonment in October 1986, the Government's policy of overfunding the public sector borrowing requirement through the sale of gilts created a surplus which was then invested in bills.

Since the policy of overfunding was abandoned in October 1985, however, the so-called "bill mountain" has decreased. At various points since then, heavy sales by the Bank of England have raised yields on acceptances to the point where commercial paper has become a more attractive option for borrowers, especially in the 30-day area.

Keith Elliott: does not expect issuance to exceed £6bn

Over the last year, the relationship between eligible bank bill rates and sterling CP rates has been highly volatile, creating opportunities for borrowers to arbitrage between the two markets.

However, bankers are keen to point out that issuing patterns so far do not bear out the view that borrowers are taking a merely opportunistic approach to issuing sterling CP. It is clear, Mr Elliott claims, that companies hava been issuing on a longer-term view, since they are well aware of the advantages of building up a source of short-term finance disintermediated from the banks. This has also fuelled their purchases of other corporates' paper.

Though Warburg estimates that about 60 per cent of its sterling CP sale is to corporates, the market's appeal to investment managers is growing (building societies are not permitted to buy CP). A survey of investors conducted by Midland Montagu, prompting about 200 replies, at the end of last year showed 78 per cent of non-corporate investors expected to increase their holdings, against 25 per cent of corporate buyers.

But at the moment funds that are in straight bank deposits and are capable, as an alternative, of being invested in sterling CP amount to a maximum of £7½bn, according to Mr Elliott.

However, changes in building societies' funding could potentially increase the pool of money available. Increases in the building societies' scope for funding themselves in the wholesale markets could release retail deposits currently held with them. These deposits could in theory be channelled into money funds, which would then invest them in sterling CP.

Midland Montagu's survey showed that, despite the range of other short-term instruments that investors can buy, they are becoming aware of the attractions of sterling CPs' particular characteristics, especially the fact that it allows for non-standard maturities. The survey showed 88 per cent of those who had purchased sterling CP had done so to broken dates.

Bankers are not, however, hopeful about the scope for attracting more foreign investors, whose investment in sterling CP is negligible at present. This is partly because non-sterling based buyers taking a view on the currency are far more likely to buy much more liquid short-dated gilts. Additionally, it is still relatively inefficient to swap out of sterling.

One factor which seems to be limiting UK investor demand at the moment is the dearth of credit ratings among issuers of CP. Midland Montagu's survey showed that 57 per cent of respondents said they would invest only in rated paper, even though it is so short-dated. Yet only between 15 and 20 per cent of issuers so far have formally obtained ratings.

One reason for this is the aggressive rates on short-term instruments such as certificates of deposit paid by banks in London – in contrast to the US. Since clearing banks pay interest at only a few basis points below London Interbank Bid Rate, this leaves much smaller scope than in the US for differentiation of sterling CP issuers' borrowing costs, according to credit quality.

As far as the potential for growth on the supply side of the market goes, the most onerous constriction at the moment is the Bank of England's requirement that issuers must have a London listing. But there are hopes that this will change and that the Bank will allow issuers with a listing on a recognised stock exchange. "There is a genuine possibility this will be reviewed in the coming year," says Mr Charles Mitchell.

One thing is clear, whatever the rate at which the market expands: it will always be far too small to support the current number of would-be dealers. At the moment, its unprofitability is notorious. As Mr Charles Mitchell, of Midland Montagu, puts it: "Taking sterling CP in isolation, it is virtually inconceivable anyone can be making any money out of it."

Even imagining that each of the 20 or so dealers has just one person dedicated to the market, this gives a total overhead of about £2m a year, while the profitability of the market amounts to a mere £½m per year.

The list of players already looks extremely top heavy. International Financing Review figures for all dealerships to the end of 1987 showed the three biggest dealers in sterling CP and CDs – S.G. Warburg, County NatWest, and Barclays de Zoete Wedd – claiming about 45 per cent of the market in both instruments.

The next four players, Midland Montagu, Morgan Grenfell, Lloyds Bank and Kleinwort Benson, accounted jointly for about 37 per cent of the market. But the gap between the fifth and the seventh player's share of the market was almost 100 per cent.

So it is hard to imagine sterling CP ever turning into more than a niche operation for the British banks. Nevertheless, the market that "nobody needed" has at least proved itself to be up and running as a viable addition to the range of sterling instruments.

Clare Pearson

IN JAPAN, yen commercial paper is in its infancy. The ever-cautious Ministry of Finance first allowed Japanese companies to issue domestic CPs only as recently as last November.

By the end of January, the market had been tapped by more than 40 issuers for an estimated Y2 trillion (million million), up from Y790bn on the opening day. The big trading houses account for about half the total, with Mitsubishi Corporation alone accounting for Y500bn.

The CP market has got off to a better start than many had expected, given its restrictive rules. Domestic issuers are limited to 180 blue-chip companies that are eligible to issue unsecured corporate bonds, with 30 of them required to have their issues backed by unused bank credit lines.

Only institutional investors may buy the paper. The minimum denomination is Y100m and the maturity period has to be between one and six months. All issues have to be made through either a bank or a securities house. Unlike a practice favoured by the best borrowers in the US, companies are not allowed to sell their CP directly to investors.

The ministry allowed a domestic CP market to start as a first step towards fulfilling its promise to expand Japan's short-term money market. CP also broke new ground, being the first new financial instrument in Japan in which domestic city (national commercial) banks and securities companies could compete directly as underwriters. Commercial and investment banking are legally separated in Japan, as in the US, though the barriers are starting to crumble.

Before the arrival of CP, the banks had enjoyed a monopoly over short-term financing in Japan. CP can be likened to a securitised overdraft, so they have given the securities companies a way into short-term financing. But because the finance ministry defined CP as promissory bills, rather than securities, the securities firms

CP has made a better start in Japan than many had expected, but –

The rules need to be eased

have had to share the new market with their commercial-bank rivals. Competition between the two was hard-nosed from the start.

Neither banks nor securities companies are making much, if any, money from CP yet. Early issuers, such as the big trading houses and the electricals giant Hitachi, got paper-thin rates of 3.8-3.9 per cent for three month issues – against the then rates for a three-month certificate of deposit (CD) of 4.3%.

The securities firms pitched the issues they handled at rates much the same as loans and discounts on the best bills. The banks argued that CDs should be the benchmark, accusing the securities companies of only being able to get away with lower rates because they could arm-twist their investment trusts to buy the issues, which would otherwise be unattractive to investors. Banks were forced to issue less paper or warehouse it themselves.

However, there was a limit on how far the securities companies could stuff their own investment trusts with cut-price CP. There was a limit, too, to which all investment trusts as users of CP, would accept low rates. That limit is imposed by the Ministry of Finance, which ruled that fund trusts can only hold up to 10 per cent of their cash position in CP (a regulation which also meant that CP is a long way from being used to create money-market fund clones).

Rates have since crept up, to around 4.1-4.2 per cent, but the banks are still hurting. Some industrial companies have found that they can borrow cheaply by issuing CP and lend dear by putting the funds raised on deposit at the banks. Interest rates on large-scale time deposits are currently 4.5-4.7 per cent.

Even after deducting steep issuing costs, of which the biggest part is stamp duty (Y150,000 on a Y1bn issue), companies are still left with a profitable and risk-free way to zaitech. Companies are restrained from doing this too enthusiastically so as not to strain relations with their bankers, but some city banks are said to be offering their industrial clients time deposits at negative interest rates to nip this practice in the bud.

While the city banks have found themselves undercut by the securities companies, they are in turn squeezing small and medium-sized regional banks who have been seeking increasingly to take their corporate customers, but who cannot afford to compete in this particular price war. In fact, as CP rates move above inter-bank bill rates, the city banks are finding a market for CP among the regional banks, and one in which the securities companies' marketing is weak.

The city banks as a group now account for 60 per cent by value of CP issues underwritten, with Mitsubishi Bank, having the largest market share among them with some 12.5 per cent of the overall market, followed by the Sanwa and Fuji banks with about 7 per cent each, and then Sumitomo Bank.

The four big securities companies account for the rest, with Nikko Securities being the biggest underwriter among them: it has about a 10 per cent overall market share.

The Ministry of Finance will review the CP market after about a year. Many of the present restrictions are likely to be eased, and a rating system to qualify issuers introduced to expand the pool of potential issuers, to include such as non-bank financial institutions.

Already, since the end of January, foreign companies have been allowed to tap the Tokyo market. Eligible firms are manufacturers listed on the Tokyo Stock Exchange. More than 50 of the 90 foreign firms listed on the exchange qualify.

Samurai CP, like domestic CP, will have a maturity of between one and six months and a minimum denomination of Y100m, but the tax considerations are likely to make this a relatively unattractive market for any save those who need yen working capital in Japan. Dow Chemical is the only issuer to have sought approval from the ministry of finance.

A more tax-efficient alternative for issuers who would want to swap the proceeds into other currencies would be the Euroyen CP market. This was authorised for foreign companies on the same day as the domestic CP market was permitted for Japanese ones. The ministry has so far approved seven issues, including several multi-currency packages.

From April, Japanese firms, too, will be allowed to issue CP in foreign markets, either in yen or foreign currencies, but restrictions on purchases in Japan (institutions are only allowed to resell after a minimum two-week delay) will have to be eased if expectations of this being a brighter market than domestic CP are to be fulfilled.

Lisa Martineau

West Germany

Thwarted by the tax

FOR A while last year it looked as though the debate over a commercial paper market in West Germany was about to take a dramatic turn. A leading US house was making good progress towards getting round the tax hurdle that makes CP unattractive in Germany.

CP tends to split German bankers down the middle. Some argue that there should be a market but recognise that there isn't. Others, probably the majority, do not even accept that a market is necessary.

Where both groups agree is that CP does not exist at present. Nor, following the demise of the latest plan, does it seem likely to appear on the immediate horizon.

The obstacle remains the *Boersenumsatzsteuer* – the stock exchange turnover tax – levied at 0.1-0.25 per cent on all secondary market trading of securities. Trading between recognised "credit institutions" (ie banks) is exempt, but the tax still bites on the non-professional end-investor.

The result is to squeeze dealers' profit margins – hence the lack of incentive to get CP off the ground.

Bankers were hoping last year that the Government would honour its January 1987 election pledge and drop the tax. However, that has not come about, largely because other issues have taken precedence. Moreover the tax's DM800m-odd annual revenue has become increasingly valuable, given the Government's skyrocketing budget deficit.

Accordingly, some bankers have turned their attention to finding ways around the tax. The formula remains secret, but Salomon Brothers is believed to have made good progress towards a solution.

Unfortunately, its decision last year to pull out of the US CP business meant that the German project got shelved. It is unclear how it would have been structured, or whether the regulators would have approved, but first signs from the Bundesbank had been encouraging.

The central bank and federal regulators in Berlin have undoubtedly warmed to CP. Were banks to enter into discussions "there would be an exchange of arguments, but I can't see any very strong arguments against on our side," says an official from the Bank.

But even if the turnover tax disappeared overnight, many bankers wonder whether there would be a German demand for CP. Certainly, there are few immediately obvious borrowers. Many leading German corporates are highly liquid at present; Siemens alone has cash resources of almost DM20bn.

Barring huge acquisitions, that is likely to remain the case, given the flaccid domestic economy and more difficult export climate, which mean there is little sign of big new industrial investment and funding plans.

But even if they needed cash, many of Germany's biggest corporates could probably borrow more cheaply from their banks than through CP, if they have enough leverage.

One model for CP, which takes Fibor (Frankfurt Interbank Offered Rate) as the yardstick, has the borrower paying five basis points above Fibor, while investors would receive Fibor minus five basis points, leaving the investment bank with a 10 basis point spread.

"We reckon a top corporation could borrow from its bank at Fibor," says one US investment banker, making CP too expensive for the borrower.

But there are other takers. "CP should interest any corporation with short-term DM funding requirements," says one US banker. The German subsidiary of a leading US multinational, which does not have a close relationship with any single German commercial bank, would be an obvious target.

"Sovereign" borrowers, like the German Laender (states), are also candidates, as are middle-sized German companies, which are not necessarily known internationally but are familiar enough at home.

Investors should also be tempted, some bankers claim. Corporates may not need to borrow because of their high liquidity, but that could make them prime investors instead. Other possible buyers are groups which could use the flexibility of CP in matching assets and liabilities, such as insurers and auto finance groups.

Farther away is the possibility of retail buying through money market or mutual funds. The Bundesbank is firmly against such schemes at present, but its views could change, not least after the European Community's common financial market in 1992.

However, there is plenty of implicit opposition to CP, notably among domestic banks. The product could threaten their existing tight credit relationships with companies by giving outsiders a niche. Moreover, longer experience with Eurocommercial paper and in the UK market has shown that margins are soon squeezed. "CP has become a break-even product at best," says one Eurobanker.

In the longer term, domestic banks might see a shift in long-term retail savings away from low interest deposits into more liquid tradable instruments. "What would commercial paper do for the Deutsche Bank?" asks one foreign banker?

But some domestic banks are already fully aware that if turnover tax is dropped, CP will not be long in coming.

According to one Deutsche Bank executive, it is the banks holding corporates' billions of Deutsche Marks in Eurodeposits that will first feel the pinch, rather than those with a big domestic retail deposit base.

Many companies will be prepared to give up a few basis points and switch to CP in view of its tradability and lower credit risk, he argues. Savings accounts may decline as a result of CP in the end, but money market funds will have to come first.

Haig Simonian

Australia

Bonds shortage whets appetites

AUSTRALIAN COMMERCIAL paper markets look set for a selective revival in 1988 after a torrid end to 1987, reflecting the backwash from the worldwide October share crash.

A number of factors are already beginning to crystallise, which could entice corporate borrowers into new-year issuing programs following a lean final quarter of 1987.

Viewed with a longer-term perspective, the domestic corporate debt market in Australia has struggled since the currency was floated and capital markets were largely deregulated earlier in the decade.

The sudden opening of the local market to international influences saw corporates and government bodies alike scramble to raise debt in Euromarkets. Heavy use was also made of swap markets, and these factors have generally limited the scope for domestic raisings by corporates.

One sign of this is that the corporate debenture market in Australia is virtually dead. The bulk of domestic corporate raisings have been through promissory notes, which represented about 30 per cent of total capital raisings by Australian-based entities in 1987.

But the tenor of the market changed around the time of the equities crash, when a number of major corporates, including BHP, Ford Credit, Shell and the Federal Government, backed Austrade, moved away from P-notes and issued medium-term corporate paper at a 1 to 1½ per cent premium over the rate for long termed Federal Government bonds (now around 12 per cent).

The raisings were regarded as not well marketed, but the underwriters struck it lucky because the equities crash probably brought forward what was always likely to be an across the board fall in Australian interest rates.

The crash also caused a flight to quality in debt markets, with investors diving for bonds and banks bills, exacerbating another emerging trend, a pronounced tightening in the supply of bonds.

This tightness is mainly a result of the Federal Government's fiscal policies, which look like producing Australia's first budget deficit for more than a decade in the current June year. This has allowed the Government largely to vacate debt markets where it has traditionally been a major player. Bond tenders have consequently been reduced, and speculation is that there may not be another one until the second quarter of 1988.

So at a time when demand for bonds is rising, the supply is limited, and investors are being forced into other types of paper, mainly the next ranking debt instruments, semi-government securities and corporate paper. This process helped the big corporates to get their paper away late in 1987, and has increased confidence that corporate paper will be much easier to market in 1988.

Bond markets are expected to remain extremely tight because, apart from limited supply, up to half the Australian bonds on issue are held overseas. But the expanding Australian banking sector is expected to have an increasing appetite for quality paper, and banks could well wind up holding a huge proportion of available bonds over the next few years.

One area of the market that is expected to grow strongly in 1988 is mortgage-backed paper, which has slowly won greater acceptance in recent years as practitioners have become more skilful at securitising property. With the share market down, property is enjoying an improved status as an investment avenue, and mortgage-backed securities are expected to benefit from this.

Most commentators see a downtrend in Australian-based capital raisings in 1988, resulting from a general slowing of business activity because of the share crash. Even so, funds are likely to be nearly impossible to raise on equities markets, and some corporates, still needing money, will be forced to look at debt. This will underwrite a certain amount of activity.

On the broader front, figures compiled by the Australian Capital Markets magazine showed that total Australian capital raisings in the year to September 1987 rose 14 per cent to just under A$70m. Much of the raisings were offshore in bonds and commercial paper.

Australia's major financial institutions were nudged out of a lot of this business by the overseas majors. The Credit Suisse First Boston group was the leading fund raiser, putting together nearly 50 deals worth just under A$14bn.

Swiss Bank Corporation and Salomon Bros came in next, with raisings of more than A$10bn each, followed by Shearson Lehman, Morgan Guaranty, Merrill Lynch, Citicorp and Morgan Stanley. The best Australian performer was the ANZ banking group with nearly A$6.6bn in 37 deals, while Westpac and the Commonwealth Bank raised just over A$6m each.

Bruce Jacques

Canada

Banks close the gap

INTENSE RIVALRY is still the hallmark of the Canadian commercial paper market, after a 12-18 month period during which the country's major chartered banks have made significant inroads.

Since the first phase of domestic financial services industry deregulation began on June 30, the banks have built up a market share widely estimated at between 15 and 20 per cent. By common consent, however, the market leaders remain the securities dealers Dominion Securities, McLeod Young Weir and Wood Gundy.

The market continues to expand at a healthy enough pace – the value of commercial paper outstanding at the end of last November (including sales finance and consumer loan company issues) totalled C$20.1 bn, compared with C$15.9 bn a year earlier. But, in the words of Mr John Usborne, a Richardson Greenshields vice-president, "the market's appetite has not grown as fast as the number of participants selling". This has resulted in a more competitive environment for all commercial paper distributors.

The banks' increasing presence has had an impact in two ways. First, they continue to offer extremely attractive terms for the distribution of commercial and bankers' acceptance (BA) paper, seeking to capitalise on what Mr Ed Davies, of McLeod Young Weir, terms their "fairly unique access to the retail market".

"The way to develop commercial paper activity is to create new types of borrowing for your customers," comments Mr Raymond Day, of Toronto-Dominion, widely regarded as the most aggressive of the recent market entrants. Last December, T-D arranged a C$300m facility for General Motors on an innovative committed funding basis.

Second, they have been aggressively marketing BAs as an alternative to traditional bank financing, offering inducements like lower stamping fees (the cost of a bank repayment guarantee) in a bid to generate business. This practice may have eaten into the commercial paper market. The Investment Dealers' Association of Canada's spring 1987 report noted that "the competition for bankers acceptance business encouraged some traditional commercial paper borrowers to finance through the acceptance market."

Certainly, the value of C$ BAs outstanding has expanded almost exponentially in recent years. From C$6.6bn at the end of 1981, the figure rose to C$24.9bn five years later, and to C$30.1bn by end-November 1987.

A further factor behind the rapid growth of BAs is that the commercial paper market is, to all intents and purposes, confined to companies with an R1 or R2 high rating from the Dominion Bond Rating Service of Toronto. This has produced an ongoing shortage of quality issuers. Dealers estimate that as much as C$6bn, or approaching 30 per cent of paper currently outstanding, is accounted for by the Big Three US automakers. "Being a resource-based economy, the ratings of a lot of major companies are just starting to come back," says a spokesman for one prominent dealer.

This position was for a time exacerbated in the wake of the October stock market crash, whose most enduring impact on the commercial paper market was to precipitate a flight to quality. "It made our investors more credit-conscious," recalls McLeod Young Weir's Mr Davies. "R2 became harder to move. R1 names did trade fairly actively."

Nevertheless, the last year has produced the usual crop of new issuers, dealers say, among them Olympia & York, Siemens Electric, and Nestle. Moreover, "every new issuer except for one", according to one market observer, has chosen to pay the traditional one-eighth of 1 per cent fixed agency commission.

This would indicate that, despite intensifying competition, many issuers still see the value of receiving high quality service from a closed group of distributors.

"If you are a larger issuer and want to put business up competitively among 10-12 people, we will bid for it," says Mr Davies. "But it's like anything else – you get what you pay for."

"Money markets are no longer viewed as a loss leader," adds Richardson Greenshields's Mr Usborne.

According to Mr Ian Russell, director, capital markets, for the Toronto-based IDA, however, "dealers are losing money in the money markets these days".

"There has been some dealer retrenchment from money market dealings in response to unfavourable developments in the treasury bill and acceptance market," Mr Russell writes, in the most recent IDA report. "Since chartered banks will continue to expand their presence in the money market, and the operating techniques of short-term monetary policy are unlikely to change, this retrenchment will continue unabated."

Of course, since Dominion, McLeod and Wood Gundy have all in the last six months sold majority stakes to major banks, this retrenchment is to a degree artificial. Similarly, the keen competition which sparked it could well prove short-lived as the banks integrate their new dealer operations into their respective systems.

The major uncertainty is whether money market activities will tend to be consolidated into the operations of the parent banks or of their investment dealer subsidiaries. Mr Russell's money is on the banks, given their "essential cash management operations" and the "difficulties" faced by some dealers in the money market.

Interestingly, Mr Day, of the T-D, whose only investment dealer acquisition so far has been of the discount broker Gardiner Group Stockbrokers, disagrees. "The dealers' advantage is that we have only been in this business for a year," he says. "I would believe that our competition in future will be with, for example, Dominion Securities using the Royal Bank system."

David Owen

France

In need of ratings

AFTER TWO years of somewhat turbulent existence, with the rules and the competitors changing rapidly around it, the French commercial paper market is reaching cruising speed.

Set up in December 1985, the market experienced unexpectedly rapid growth in its first six months. The volume of outstanding commercial paper – the French use the term *billets de tresorerie* to distinguish it from the trade bills already known as *papier commercial* – rose rapidly to FFr26bn.

The speed of this development worried the Paris financial authorities, and the Bank of France gently invited companies with commercial paper programmes of over FFr500m to curb their enthusiasm for the second half of 1986. Once the official go-slow order was lifted at the start of 1987, new issues once again took off.

Commercial paper gained a head start, since the market opened before the authorisation of a market in certificates of deposit, and at a time when the market in French Treasury bills was undergoing rapid transformation. Its opening also coincided with the closing of the interbank money market to a range of institutional investors, principally unit trusts and insurance companies, who have become the principal buyers of commercial paper. At the end of 1987 mutual funds held 44 per cent of commercial paper, insurance companies 14 per cent and banks and credit institutions 17 per cent.

By the end of January this year, 98 issuers were present in the market, with a total of FFr49.9bn of commercial paper outstanding. A group of 27 issuers with programmes of over FFr500m accounted for nearly 80 per cent of the total.

The largest user is Societe Nationale des Chemins de Fer, the state-owned railway company, with FFr4.1bn outstanding at the end of 1987, followed by Peugeot Finance, the financial arm of the private sector car group, with FFr3.9bn. Many other major names in the French blue-chip industrial sector are represented, from private sector companies like Michelin, the tyre producer, BSN, the foods group, and the privatised glass and packaging group St Gobain, to state-controlled enterprises in the electronics, defence and aviation sectors such as Thomson, Aerospatiale and Snecma.

Commercial paper has so far seemed to offer almost total security, and many investors have neglected the monitoring of their counterparty risks. Dealers report that they have often had difficulty persuading investors to accept paper from top quality issuers rather than from far less secure companies paying fractionally more.

The gap between top state-backed signatures and second quality names is often as little as 10 basis points, and commercial paper often commands lower rates than French treasury bills.

Commercial paper interest rates in fact relate much more closely to the money market than to the treasury bill market. Mr Jacques Desponts and Professor Catherine Lubochinsky of the Banque Nationale de Paris calculate that a movement of 1 point on the three month Paris Interbank Offered Rate (Pibor) corresponds to a 0.99 point move on commercial paper rates. The same move on treasury bill rates ends up as only a 0.82 point move on commercial paper.

But a premonitory shiver ran through the market in the early autumn when the first default occurred. Societe Francaise d'Extrusion et de Calandrage (SFEC), a small plastics company, was scarcely of a size to shake the market when it went into bankruptcy proceedings with FFr20m of its commercial paper unredeemed, but the warning was useful.

It became clear that many corporate treasurers, who hold directly around 25 per cent of all outstanding commercial paper, had been misled by the bank back-up line that every issuer must arrange for 95 per cent of his programme into thinking that repayment was guaranteed by this bank. Many company boards, too, fail to lay down precise guidelines to their treasurers on what sorts of investment are acceptable.

Indeed, the Credit Agricole, France's largest banking group which had arranged the back-up line for SFEC and placed most of the paper with its clients, found ways of "reducing the damage to its clients", while standing firm on the principal that it had no legal responsibility for the default.

The same lack of discrimination over the quality of signatures has been observed in the market for certificates of deposit. Top quality issuers like the Caisse des Depots, the giant state financial institution with FFr22bn of CDs outstanding, or Banque Nationale de Paris with FFr16bn, have not, in the view of many dealers, commanded the kind of premium over smaller and less secure finance houses which they deserved.

The principal lesson of the SFEC default, according to the Credit Agricole and many other operators, is the need to increase the use of ratings in the issue of paper. The Agence d'Evaluation Financiere has begun to issue ratings for commercial paper programmes, but it will be some time before it covers the whole market.

George Graham